Private & Confidential

BRITISH WATERWAYS

3 YEAR CORPORATE PLAN

2006/07 – 2008/09

BRITISH WATERWAYS' 3 YEAR CORPORATE PLAN 2006/07 TO 2008/09

1 STRATEGIC OVERVIEW

This document presents BW's plans for the years 2006/07 to 2008/09 and forms part of our strategic planning process.

This is a difficult time for us to prepare an accurate 3 Year Plan because some major influencing factors are still unresolved, or have only recently been clarified. These are:-

Grant

- Defra have signalled but not yet confirmed a 5% reduction in 2006/07 and 4% in 2007/08.
- The Government's Comprehensive Spending Review (CSR) will begin during 2006 and will set Government Department funding limits for 2007/08 onwards. All the indications are that spending is to be squeezed in all areas other than Health, Education and Security.
- Our negotiations for a 7 year contract with built in grant reductions have not yet begun in earnest.

Customer Service Transformation

- We have allocated £1m towards implementation this year. This programme will change the way we prioritise and organise ourselves and this will influence the allocation of resources in future years.

Core Waterway Efficiency

- Our Omnibus contracts expire in May 2007. We will be planning this year for the replacement regimes that will be geared to greater flexibility and increased efficiency.
- The way we undertake our General Works Programme needs a thorough overhaul. This is a major priority for the Technical Director and his team. Savings are expected to come through in the second and third years of the plan.
- Steady State modelling will drive the above efficiencies and this work is ongoing.

Corporate Overhead

- Office moves to reduce current overhead costs are planned for Watford, Milton Keynes and West Midlands. Fearns Wharf is planning to reduce its floor occupancy to release space for letting. Not all the effects of these plans can be estimated yet.
- Throughout 2006 we will be reassessing the need for the very high central overhead budget and expect to put in place plans to reduce this during the second and third years of the plan.

Ventures

- The Wood Wharf Partnership is in the process of making some significant decisions about further land acquisition and development structure. These could have a major impact on our capital and revenue streams in future years.

With these significant factors in mind, we have put together this plan in the knowledge that the second and third years will change as various issues are clarified. We have targeted savings, yet to be quantified specifically, of £1.5m and £3m in years 2 and 3 of the plan, although target areas have been identified.

2 BUSINESS PLAN FOR 2006/07 – 2008/09

2.1 Main changes from last year's plan

This plan builds on the assumptions and estimates that were expressed in last year's plan and our long term projections remain largely consistent. However the plan has been updated to reflect the impact of a number of events, which have occurred during the last year and the principal changes are outlined below.

2.1.1 Organisation and presentation changes

The format of presentation is being changed to show more clearly the hierarchy of reporting entities within the business, consistent with the organisation management structure. The functional analysis by business area remains within the Waterway Unit results, but this now excludes quasi-capital major works, such as arrears, dredging and asset renewals, in order to focus on the underlying routine operating performance.

The negative (red) variances indicate adverse variances to last year's plan and the black variances are favourable.

Headquarters functions are now separated into centrally managed businesses and corporate HQ departments, which will facilitate further visibility and control of our corporate overheads.

The Managing Director Units, which previously covered the Northern and Southern Waterways, have now been disbanded and their respective responsibilities assigned across the various central functions. Business area responsibilities have been more clearly defined for each of the Executive Directors to further improve control and accountability.

Following the triennial valuation of our pension scheme, which took place during 2004/05, we included additional expenditure of £1m in each year of last year's plan to reflect the deficit contributions. These charges are now ring-fenced and shown as 'planning adjustments'. However, changes currently being made to reflect the adoption of the Financial Reporting Standard for defined benefit pension schemes, will results in the past service deficit being treated as a balance sheet item and not charged to the P&L.

2.1.2 Contract with Government

Discussions with Defra and the Shareholder Executive continue in respect of the recommendations of The End to End Review. In particular, the switch from grant to contract-based funding is progressing and the financial implications are being calculated. A draft contract will be prepared by September 2006 for Board approval followed by implementation with Defra from April 2007.

This plan does not include any financial implications from the contract with Government on the assumption that any consequential reductions in funding levels will apply from 2009/10.

However, late notification has been received from Defra of a grant cut in the order of 5%, from 2006/07. The grant figures have therefore been reduced by £3m in each of the plan years in comparison to last year's projections.

2.1.3 Property business area

Contribution throughout the plan period reflects improved income streams from existing agreements, due to successful rent review negotiations, together with improved cost management plans. However, income reduces from 2007/08 compared to the prior year plan due to the diversion of capital from property into ventures to fund our activities in isis and Wood Wharf.

2.1.4 Leisure business area

Leisure income is expected to exceed last year's plan by £0.5m per annum, following the completion of mooring strategy plans and the 4.6% price increase applied to craft licences for 2006. However, contribution is £0.2m and £0.3m lower than previously planned for 2006/07 and 2007/08 due to the up-front costs associated with the maintenance and improvements of retail sites and online moorings. The Regeneration area now includes the overhead cost of the New Marinas Unit, but as yet none of the potential new income, which will ultimately flow into the Leisure figures and which we aim to generate from the creation of up to 2,400 new berths over the plan period.

Last year's plan included an estimate of £100k per annum for new net income from the sponsorship project. As this project has progressed, this estimate appears to have been conservative and revised estimates included in this year's plan have increased to £240k, £400k and £550k for each of the three years. For the purposes of this plan, this income is currently being held within Corporate HQ departments, but will ultimately be reallocated to the appropriate business units.

2.1.5 Core Waterway business area

The development of new models to control the funding of the core operation has been progressing well. In particular, the first year's outputs from the 'steady state' review have now informed the re-allocation of funding for routine operations and maintenance across the Waterway Units. An additional £5m of funding has been allocated to local unit plans from our Priority Projects budget to tackle some key elements of customer service on the track and to fund the lease charges for the new floating plant.

All outstanding arrears of maintenance have been identified and programmed nationally according to our Business Benefits Prioritisation Index (BBPI). This takes a number of key factors into account, ensuring that those works with the most significant safety risks and customer service impact are tackled as a priority. Works are being planned ahead on a three year rolling programme in order to achieve best value for money. With the advancement of the arrears programme we are now in the process of identifying non-arrears major works. It is our intention to combine these into a full major works programme scored in accordance with the BBPI so that there is a successor programme to arrears of major works.

2.1.6 Regeneration and Restoration business area

A new post of Regeneration Director has been established to take responsibility for major restorations, Regional Development Agency, European and lottery funding, Marina Opportunity Development, relationships with The Waterways Trust and volunteer development. This brings together teams from across the organisation and will improve the focus on achieving our future regeneration objectives.

CBIT for Restoration and Regeneration is largely unaffected by the delays that we have experienced on the Droitwich and Liverpool Link projects as most expenditure is directly covered by third party funding. Minor variances arise where fixed costs are incurred prior to the construction phase, as these rarely attract external funding. The Bow Back Rivers restoration and construction works on the Liverpool Link are now deferred to 2007/08, resulting in £9.5m of income moving into that particular year.

2.1.7 Utilities business area

A new business area has been created to capture the income and expenditure associated with our Utilities and Water Sales businesses, which have a total turnover of approximately £17m pa. All financial projections remain largely as planned last year, but are now more visible as a combined entity within the accounts.

2.1.8 Major Works

A net saving is projected for Major Works CBIT, arising from the reprofiling of arrears expenditure, which creates a £4m per annum saving across the plan period. Of this, £2m is being reinvested in major dredging projects. Additional third party income also contributes to the year on year difference. The Asset Manager is working closely with Waterway units to create a programme of non-arrears major works in order that we have a full programme of all major works going forward.

2.1.9 Ventures business area

Timing differences in the receipt of isis dividends account for some significant changes to planned contribution, with 2007/08 in particular benefiting from land trades being brought forward to earlier years.

Business plans for each of our ventures have been revised; isis will be our key risk and key dividend contributor over the plan period. During the course of 2006/07 we aim to account on an equity basis for all our subsidiaries and joint ventures. This will result in some variances from last year's plan, which included dividends from ventures on a cash received basis.

At the time of writing, the Wood Wharf partnership is in the process of making some significant decisions about further land acquisition and development structure. This may impact on the utilisation of our commercial capital funds during the plan period, but any impact on ongoing revenue streams is likely to fall outside of the three year plan period.

In December 2005 it was decided that Waterscape.com would cease to be a wholly owned subsidiary, but would instead be managed in-house to become our dedicated on-line marketing arm. This move is expected to consolidate Waterscape.com's position as the leading provider of on-line waterways-orientated leisure information and we will focus our resources accordingly. The restructure of Waterscape.com reduces the planned profit from subsidiaries by £0.5m and £0.6m in the first two plan years. BWML is now planning a significant reduction in turnover from boat sales, but this has little impact on profits as it is matched by a corresponding reduction in cost of sales, higher growth in mooring income and overheads are being kept to a minimum.

2.1.10 Corporate Services business area and overhead costs

Previous assumptions about the moves from the Willow Grange and Fearns Wharf offices have been revised. Good progress has been made on identifying a preferred developer for the Willow Grange site and the relocation of headquarters functions is now planned for early 2008. Further options for Fearns Wharf are being reviewed as it now seems that previous plans to move the Waterway Unit to a location outside of Leeds could prove significantly more costly than the 'stay at Fearns Wharf' option. Office moves from the current sites in Milton Keynes and Birmingham are also in development.

Overhead costs are currently the subject of a thorough review and plans are being developed to identify significant savings over the plan period. This will included a detailed analysis of the costs associated with running the Corporate HQ departments, together with an in-depth review of business processes to ensure that maximum efficiency savings can be achieved.

The Information Systems Strategy Board has been established as a business-led forum to formulate the group-wide information systems strategy and determine the business priorities for future development projects. Potential IT developments costing £0.8m, £0.6m and £0.5m are included in 2006/07 and 2007/08 respectively. This includes the cost of a SAP upgrade, which was planned when we entered into the contract with LogicaCMG, and which will help to streamline business processes and improve process efficiency.

2.2 Financial Performance by Business Area and Business unit

2.2.1 Summary by business area

The following table shows the key movements from last year's plan, with routine business area results within Business Units shown before Major Works. The concept of the Operational Property Company has been removed from the accounts from 2006/07, as this creates unnecessary accounting complications. Instead, the amount of capital employed within each business area will be monitored closely and controlled to drive further efficiencies.

All financial tables include comparative figures from last year's plan and the Q3 forecast out-turn figures for 2005/06. Final 2005/06 results were not available at the time of publication.

Profit and Loss	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Income										
Business Units										
Property	28,652	29,615	30,622	29,696	29,934	29,887	30,333	1,044	319	(735)
Leisure	19,390	20,320	21,101	19,289	20,774	21,619	22,428	(101)	454	518
Core Waterway	14,203	13,524	14,567	16,534	15,950	14,213	12,987	2,330	2,426	(354)
Regeneration and Restoration	22,749	31,638	30,981	11,182	29,263	36,517	30,690	(11,567)	(2,376)	5,535
Utilities	19,550	16,246	16,565	20,691	16,534	16,786	16,947	1,141	288	221
Total Business Units - Routine Operations	104,545	111,344	113,836	97,392	112,455	119,022	113,383	(7,153)	1,111	5,185
Major Works	2,492	2,728	372	3,275	3,105	886	-	782	376	515
Ventures	16,900	14,801	20,401	14,361	10,452	16,469	17,570	(2,539)	(4,348)	(3,933)
Corporate HQ Departments	1,303	1,750	830	804	1,056	1,306	1,450	(499)	(694)	476
Total Income	125,241	130,623	135,440	115,832	127,068	137,683	132,404	(9,409)	(3,555)	2,243

	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
CBIT										
Business Units										
Property	20,529	21,886	22,861	20,812	21,739	22,483	23,566	283	(147)	(378)
Leisure	13,054	14,075	14,832	12,943	13,822	14,499	15,137	(110)	(253)	(333)
Core Waterway	(50,068)	(52,540)	(54,052)	(52,662)	(54,025)	(58,256)	(59,578)	(2,594)	(1,485)	(4,204)
Regeneration and Restoration	(2,465)	(2,371)	(2,311)	(2,800)	(3,490)	(3,091)	(3,336)	(335)	(1,119)	(779)
Utilities	18,975	15,662	15,996	20,142	16,019	16,247	16,382	1,167	357	251
Corporate Services	(8,962)	(8,846)	(7,553)	(8,837)	(7,500)	(7,304)	(7,651)	124	1,346	249
Operational Property	2,011	2,020	1,551	2,355	-	-	-	344	(2,020)	(1,551)
Total Business Units - Routine Operations	(6,925)	(10,113)	(8,677)	(8,048)	(13,435)	(15,421)	(15,481)	(1,122)	(3,322)	(6,744)
Major Works	(30,736)	(32,736)	(33,334)	(35,253)	(31,824)	(31,186)	(30,532)	(4,517)	912	2,148
Ventures	6,659	2,020	5,634	6,504	2,637	7,582	7,188	(156)	616	1,948
Corporate HQ Departments	(24,666)	(25,560)	(25,610)	(27,931)	(30,339)	(29,127)	(30,651)	(3,265)	(4,778)	(3,517)
Funds for Priority Projects	(5,051)	(7,000)	(7,000)	(5,051)	-	-	-	-	7,000	7,000
Target Savings	-	-	-	-	-	1,500	3,000	-	-	1,500
Grant	74,559	74,636	75,136	76,087	71,663	72,740	72,740	1,529	(2,973)	(2,396)
CBIT before Contingency	13,840	1,247	6,149	6,309	(1,298)	6,087	6,264	(7,532)	(2,545)	(62)
Contingency	(5,807)	(4,000)	(4,000)	-	(1,702)	(4,357)	(4,572)	5,807	2,298	(357)
CBIT	8,034	(2,753)	2,149	6,309	(3,000)	1,730	1,692	(1,725)	(246)	(419)
Interest Payable	(4,220)	(3,342)	(3,101)	(3,964)	(3,796)	(3,527)	(3,354)	256	(454)	(426)
Interest Receivable	773	708	651	2,113	1,796	1,797	1,662	1,340	1,088	1,146
CBT - Revenue	**4,586**	**(5,388)**	**(301)**	**4,457**	**(5,000)**	**0**	**0**	**(129)**	**388**	**301**
Profit/(Loss) on Disposals										
Property	4,933	7,692	9,308	10,239	11,855	7,957	7,874	5,306	4,164	(1,351)
Other	182	110	19	3,609	1,472	101	273	3,427	1,362	82
CBT - Capital	5,114	7,802	9,327	13,847	13,327	8,058	8,147	8,733	5,525	(1,269)
Unrealised Gains	16,000	13,300	18,720	28,865	12,486	13,143	14,919	12,865	(814)	(5,577)
Cost of Capital Charge	(29,300)	(31,024)	(31,817)	(32,408)	(34,519)	(34,384)	(35,015)	(3,108)	(3,495)	(2,566)
EVC	(153)	(12,675)	(1,621)	16,613	(11,706)	(11,452)	(10,256)	16,765	969	(9,831)

2.2.2 Financial Commentary

This commentary summarises the key features of the three year plan projections, with more detailed financial and business commentaries provided within each of the business area plans in section 3 of this document.

2.2.2.1 Property

Current year property income exceeded plan targets, due to ongoing rents from delayed disposals and some successful back-dated rent reviews. This has a positive impact on year one of the plan. However, income will reduce in comparison over the plan period, due a net capital reduction of approximately £70m in the asset base by the end of 2008/09, through disposals in excess of reinvestment in the property business area. We will aim to limit the resulting reduction in income through active estate management.

Over the plan period we expect profits on disposal and capital growth to be modest as returns from property are maintained at steady historic trend levels rather than the exceptional returns seen in the last two years. As the major development sites are worked up by the end of the plan period, the main issue becomes a lack of new capital to continue to grow the business.

2.2.2.2 Leisure

Leisure income shows good growth across the plan period, particularly from craft licences and moorings. This is driven by the 4.6% price increase applied to craft licences for 2006/07 and the delivery of local mooring strategies.

However, contribution is down on the prior year's plan by £0.3m per annum, reflecting further costs associated with the maintenance and improvement of mooring and retail sites and increased leisure development and marketing activity. Potential income from the development of up to 2,400 new mooring berths as a result of anticipated third party investment in new marinas is not included in the plan at this stage.

2.2.2.3 Core Waterway

Income is up by £2.4m in year one, primarily due to the earlier rephasing of a £1.8m operational premium in the South East waterway unit. This was originally accounted for across years 2 and 3 of the plan and creates a corresponding drop in income in those future years. The remainder of the uplift in 2006/07 arises from additional third party contributions to projects.

Contribution shows adverse variances of £1.5m and £4.2m compared to years 2 and 3 of last year's plan, due to the allocation of an additional £5m funding, spread across most waterways. This has been driven by the Steady State exercise and will create a beneficial change in local customer service provision, as well as funding floating plant lease charges. This increased cost allocation is offset by the removal of internal rent charges for operational buildings, as a result of the cessation of the Operational Property Company.

2.2.2.4 Regeneration and Restoration

Most major restoration schemes have been rephased due to developments during the current financial year. This has a £2.3m adverse impact on income to be received in 2006/07, with a £5.5m increase in the following year. Changes include the deferral of works on the Bow Back Rivers restoration and Liverpool Canal Link, as well as the Cotswolds and Droitwich restorations schemes. There is a £1.1m adverse effect on contribution in 2006/07 and £0.8m in the following year compared to last year's plan, due to timing differences of unfunded costs.

The plan reflects a reduction in third party income for small scale regeneration schemes, which has an impact of £0.5m in year 1 and £1.5m in year 2.

2.2.2.5 Utilities

Plan projections show a £0.4m increase in income from surface water discharge agreements, which, together with £0.1m of cost reductions in year 1, provide healthy growth on the prior year plan. However, this is partially negated by a lower growth in water sales income, due to the enforced renegotiation of certain agreements.

2.2.2.6 Corporate Services

Cost reductions are evident across a number of waterways in year 1, primarily driven by more accurate cost allocation. In Central Shires, for example, insurance costs have been reallocated to Core Waterway; in London, subscription costs relating to corporate memberships of external bodies have also been reallocated to Core Waterway. The Yorkshire business unit has redefined its recharging policy for other internal tenants at Fearns Wharf, generating a £0.3m cost saving to the local team, although this results in a corresponding cost increase within Head Office.

Cost increases in year 2 relate to delays in office restructuring to achieve 60/40 work-space plans. In particular the proposed vacation of the Fearns Wharf office is under review and may not now take place, although the 'stay at Fearns Wharf' option is expected generate more significant savings on current occupation costs, albeit in a slightly longer timeframe.

2.2.2.7 Major Works

A net saving is projected for Major Works CBIT, arising from the reprofiling of arrears expenditure, which creates over £3m per annum saving across the plan period. £2m of this is being reinvested in major dredging projects.

2.2.2.8 Ventures

Ventures contribution is ahead of last year's plan in all years, with year two showing a significant increase, due to timing differences within isis. This contribution level is projected despite reduced income, mainly as a result of the down-turn in boat sales within BWML, a low-margin part of BWML's business. The restructuring of Waterscape.com also contributes to the lower level of income, as previously planned income streams will not now be pursued.

Isis will be the key risk and dividend contributor over the plan period, with thirteen schemes expected to be in their construction phase, requiring £24m of further loan capital and contributing a total of £8.8m in distributions.

A further £41m of loan capital will be invested in other ventures, [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]

2.2.2.9 Corporate HQ Departments

The adverse contribution variances within Head Office are caused primarily by the allocation of funding to specific Headquarters activities, which was held within the Priorities Fund in last year's plan. Year 1 figures include Customer Service Transformation developments totalling

£1m and IT projects including the SAP upgrade of £0.8m. Further IT project expenditure of £0.6m is planned in year 2. The inclusion of £0.6m for business rates has a further adverse impact on each year of the updated plan, although we are pursuing an appeal, which may reduce or eliminate this charge.

In addition, £1m of annual speculative income from operational premia has been removed from the Central plan as this is now included within the local Waterway Unit plans. Finally, the pension deficit payments, previously included within the Priorities Fund, are now planned within HQ. As stated in section 2.1.1, a change in accounting treatment will result in the actual pension deficit payments being treated as a balance sheet rather than P&L item.

3 BUSINESS AREAS

3.1 Property

The key ratios that were targeted in the three year plan were:

- Net simple return on asset value (target 6%)
- Controllable costs as a percentage of income (target 19% reducing to 17%)
- Total returns on asset value (target investment estate 8%; development estate 15%)
- Disposal proceeds as a percentage of total asset value (target 8% investment estate)
- Number of disposals less than £100,000 capital value (target 75 nationally).

Net simple returns on the investment estate are projected to be just above 6% in each of the three years. Controllable costs (including depreciation) on the investment estate nationally decrease from 21% in 2006/07 to 17% in 2008/09 but there is considerable variation between the business units.

Total returns on the investment estate are planned to be approximately 9%,10% and 11% for 2006/07, 2007/08 and 2008/09 respectively. This is slightly higher than most industry experts predict and may reflect the nature of our estate which is, by its nature, secondary and more risky than the prime estates. This includes an assumption that revaluation gains will be in the order of 3% per annum.

Total returns on the development estate are planned to be in the range of 11-12% per annum which is less than our target of 15%. Returns in London and South are as low as 8% in some years as a result of the major sites being almost fully valued in 2005/06, as they are already under option at agreed land prices (for example Wood Wharf, Hale Wharf, Brentford, Icknield Port Loop which together have a combined asset value of approx. £70m). This includes an assumption that revaluation gains will be in the order of 10% per annum.

Disposal proceeds as a percentage of the investment estate average 4% per annum over the plan period. This reinforces the need to focus on capital employed, ensuring that we only hold those assets that generate an appropriate return, or which are genuinely required to manage our business. We will be considering our options for the large residential estate that we currently own and manage, particularly given the increasing regulatory burden on property landlords.

More detail on our planned capital programme is provided in the appendix.

3.1.1 Key property priorities and milestones

Priorities	Milestones	Date
• Deliver commercial investment strategy; including acquisitions, disposals, portfolio mix and target returns.	• Disposal receipts of £40m p.a. • Investment target of £35m p.a. • Residential disposals in line with existing proposals • Identify new acquisition opportunities within the business or enhancement of existing assets	2006/07 to 08/09 2006/07 to 08/09
• Strategic acquisition in priority regeneration areas	Target locations for development and investment acquisitions	April 2006
• Ensure all properties have registered title	Voluntary registration achieved for entire property estate	March 2008
• Accelerate disposal of low value and poorly performing assets, especially those identified by the Operation Property Review	• Achievement of BW's role in delivery of isis business plan on existing optioned sites. • Disposal of at least 75 low value properties	March 2007
• Manage the interface and identify new sites for property ventures	Identify 2-4 sites per year for isis	2006/07-08/09
• Identify sites for the Waterside Pub Partnership and ensure BW plays its part in development of new sites.	• Achievement of BW's role in delivery of Pub Partnership's business plan. • 10 new sites for Waterside Pub Partnership delivered	March 2007
• Identify sites for ATMs and advertising for sponsorship	25 new automated teller machines installed	March 2008
• Proactive management of investment estate	• Client account plans in place for top investment properties • Achieve total returns on investment estate of 8% • Implement building asset inspection procedures • Rent reviews completed on time	April 2006 March 2007
• Efficiently manage the property cost base	• Controllable costs 19%, 18% and 17% of total income • Ensure timesheets are completed and accurately allocated	2007/07 to 08/09 Throughout
• Enhance the value of sites by reaching agreed development milestones	• Client account plans for top development properties • Achieve total returns on development estate of 15%	April 2006 March 2007

	• Package up small development sites for sale where appropriate	
• Develop clarity and prioritisation of activities across core waterway and property business.	• Separate management information for Estates and PDM team activities, ensuring accurate cost allocation • Deliver SAP reports to property team	April 2006
• Resolve outstanding property issues with boating clients and deliver the property team's role in the development of new third party marinas	Respond to enquiries from new marina opportunities guide in tandem with New Marinas Unit (NMU)	
• Implement agreed solution to address future constraints on the availability of capital and property structure		
• Enhance income from core operational property rents, wayleaves and premiums by identifying scale of potential upside and resource required to achieve it.	• Clear analysis by geography and type of 05/06 £7.5m income	March 2007

During the plan period, we also intend to review opportunities for further rationalisation of the management structure of our property business, to provide greater focus and efficiency. We also intend to work up further our current thinking on how we can better finance our property portfolio, potentially through further JV's on part of it, in order to deliver more capital investment into our ventures and regeneration activity.

3.1.2 Financial projections

Income	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Investment	19,292	21,039	22,519	19,298	20,174	21,166	21,984	6	(865)	(1,353)
Development	6,001	5,210	4,660	6,666	6,142	4,996	4,579	665	932	336
Leisure	3,219	3,206	3,272	3,564	3,441	3,528	3,573	345	235	255
Other	140	160	170	168	177	197	197	28	17	27
Total Income	28,652	29,615	30,622	29,696	29,934	29,887	30,333	1,044	319	(735)

CBIT	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Investment	14,574	16,398	17,728	14,562	15,543	16,823	18,054	(11)	(855)	(905)
Development	2,941	2,440	2,022	3,050	2,933	2,243	2,050	109	492	221
Leisure	2,873	2,887	2,940	3,038	3,086	3,220	3,265	164	199	280
Other	140	160	170	162	177	197	197	21	17	27
Total CBIT	20,529	21,886	22,861	20,812	21,739	22,483	23,566	283	(147)	(378)
Gains/(Losses) on Disposal	4,933	7,692	9,308	10,239	11,855	7,957	7,874	5,306	4,164	(1,351)
Unrealised Gains	16,000	13,300	18,720	28,865	12,486	13,143	14,919	12,865	(814)	(5,577)
Total Return	41,461	42,878	50,889	59,915	46,080	43,583	46,359	18,454	3,202	(7,306)
Cost of Capital Charge	(23,894)	(24,832)	(25,612)	(26,942)	(28,232)	(27,025)	(27,120)	(3,049)	(3,400)	(1,413)
EVC	17,568	18,046	25,277	32,973	17,848	16,558	19,239	15,405	(198)	(8,719)

Operating Costs	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Payroll	3,872	4,067	4,173	3,483	3,465	3,640	3,724	389	602	533
Internal Time Recharges	(1,209)	(1,239)	(1,250)	(1,007)	(843)	(1,031)	(1,070)	(202)	(396)	(220)
Staff Related Costs	636	587	603	525	559	560	555	111	28	43
Materials and Contract	1,505	1,419	1,310	1,838	1,615	1,318	1,154	(333)	(196)	(8)
Plant and Machinery	12	13	13	6	13	13	10	6	-	-
Premises and Office Costs	1,354	1,288	1,266	1,658	1,316	1,283	1,154	(304)	(28)	(17)
Professional Fees	2,159	1,649	1,621	2,375	1,996	1,351	958	(217)	(348)	270
Marketing	7	18	8	4	18	18	18	3	0	(10)
Other Costs	(447)	(306)	(219)	(253)	(172)	17	29	(194)	(134)	(236)
	7,889	7,495	7,525	8,631	7,967	7,170	6,533	(741)	(472)	355
Depreciation	234	235	237	254	229	234	234	(20)	6	2
Total Operating Costs	8,123	7,730	7,761	8,884	8,196	7,404	6,767	(761)	(466)	357

3.1.3 Financial commentary

Income from the investment and leisure estate is planned to increase from £22.9m in 2005/06 to £25.6m in 2008/09, an average annual increase of 4%. This modest increase arises from active estate management despite reducing the capital base by approximately £6m per annum (disposals of £12m versus reinvested capital of £6m).

Costs associated with the investment and leisure estate are planned to reduce from £5.3m (23% of income) in 2005/06 to £4.3m (17% of income) in 2008/09. This reflects our increased management focus and better cost allocations to business areas.

The development estate income reduces from £6.7m in 2005/06 to £4.6m in 2008/09 as some of the larger short term income producing development sites are sold. Over the three year plan period we plan to realise disposal proceeds of approximately £83m, with only £33m being reinvested into development property. Costs associated with the development estate which are not capitalised reduce from £3.6m in 2005/06 to £2.5m in 2008/09 since most of the major sites by the end of the plan period will have been developed or will be under option to one of the ventures.

Profits on disposal over the plan period are projected to be £11.9m, £8m and £7.9m respectively. Another strong performance is expected from the development estate in 2006/07, then tailing off as the number of development sites left to sell falls.

Unrealised gains on the estate are planned to average 3% per annum on the investment estate and 10% per annum on the development estate, with market performance now expected to be less strong than previously estimated.

The investment and leisure estate has a current value of some £300m and this is expected to increase to £320m by the end of the three year plan. The development estate has a current value of some £143m and this is expected to decrease to £130m by the end of the three year plan.

The change in property asset values over the plan period is set out in the table below:

	Investment	Development	Total
2006/07			
Assets b/fwd	316,069	165,241	481,310
Disposals 2006/07	(12,125)	(38,003)	(50,128)
Disposal Weston Point	0	(10,000)	(10,000)
Profit on disposal 2006/07	2,705	10,768	13,473
Unrealised gains 2006/07	8,424	4,059	12,483
Acquisitions	7,000	15,000	22,000
Assets c/fwd	322,073	147,065	469,138
2007/08			
Assets b/fwd	322,073	147,065	469,138
Disposals 2007/08	(11,658)	(25,755)	(37,413)
Profit on disposal 2007/08	532	6,801	7,333
Unrealised gains 2007/08	8,536	4,606	13,142
Acquisitions	8,000	9,000	17,000
Assets c/fwd	327,483	141,717	469,200
2008/09			
Assets b/fwd	327,483	141,717	469,200
Disposals 2008/09	(7,051)	(25,493)	(32,544)
Profit on disposal 2008/09	1,195	6,147	7,342
Unrealised gains 2008/09	9,886	5,032	14,918
Acquisitions	9,000	9,000	18,000
Assets c/fwd	340,513	136,403	476,916

3.2 Ventures

3.2.1 Key ventures

Detailed business plans have been prepared for each of our ventures. The key highlights of these are summarised below.

In particular, the key ventures which impact on our financial plan are isis and Wood Wharf. Our two national ventures, Waterside Pub Partnership and BWML, are less significant in financial terms but are important for our vision and corporate objectives.

3.2.1.1 Isis

Profit and loss account £000	**2006**	**2007**	**2008**	**2009**	**2010**
Turnover	**21,454**	**66,290**	**163,288**	**192,262**	**189,751**
Ilford	1,574	-	-	-	-
Nottingham	-	3,815	1,125	3,543	3,416
Leeds Yarn St	1,121	2,277	-	-	-
Manchester	-	1,103	4,579	2,567	5,153
Thurrock	-	2,237	-	-	-
Brentford ex ISIG	3,144	3,442	5,290	4,969	1,667
Glasgow	-	2,347	6,194	6,252	6,426
Media Village	-	-	327	-	-
Leeds Canal Basin	1,250	-	8,339	3,816	-
Brentford ISIG	-	-	-	3,613	4,817
Icknield Port Loop	-	3,860	6,968	8,621	11,015
Hale Wharf	-	-	-	6,816	6,816
Gross Margin	**7,089**	**19,081**	**32,822**	**40,197**	**39,310**
Operating costs	(3,002)	(3,095)	(3,182)	(2,911)	(2,566)
New project investigations	(200)	(200)	(200)	(200)	(200)
Bank interest	(552)	(2,631)	(3,313)	(1,511)	(897)
Mezzanine interest	-	(2,159)	(2,211)	(1,852)	(1,391)
Profit before tax	**3,335**	**10,996**	**23,916**	**33,723**	**34,256**
PBIT as a % of total capital employed	*9.9%*	*15.6%*	*20.0%*	*27.1%*	*31.1%*
PBT as a % of equity capital employed	*11.9%*	*23.0%*	*31.8%*	*38.1%*	*39.2%*
PBT on equity capital employed since inceptio	*11.0%*	*16.1%*	*22.4%*	*27.4%*	*30.3%*

By the end of the plan period isis is expected to require a maximum of £30.7 million investment to deliver the regeneration and development across the portfolio.

The isis business plan assumes that the following key milestones will be achieved in 2006/07.

Isis milestones	Date
Trent Basin Nottingham	
• Complete gap funding deal with EP	June 2006
• Submit planning application	Sept 2006
• Secure planning consent	March 2007
Manchester	
• Launch Islington Wharf phase 1	June 2006
• Commence construction	Sept 2006
Icknield Port Loop	
• Enter option with British Waterways	June 2006
• Submit planning consent	Dec 2006
• Secure planning consent	March 2007
Yarn Street Leeds	
• Submit planning application	June 2006
• Secure planning consent	Dec 2006
• Dispose of 50% of the land – gross margin £1.121m	March 2007

Leeds Canal Basin	
• Secure planning consent and Section 106 Agreement	
• Dispose of land to City Inn – gross margin £1.250m	June 2006
• Commence residential construction	March 2007
Glasgow	
• Submit planning application at New Rotterdam Wharf	June 2006
• Submit planning application at Botany/Maryhill and Whisky Bond	Sept 2006
• Secure planning consent at New Rotterdam Wharf	Dec 2006
• Secure planning consent for Botany/Maryhill	March 2007
• Secure planning consent for Whisky Bond	March 2007
• Commence construction at Dundas Wharf	Dec 2006
Birmingham	
• Submit planning application for Warwick Bar (Media Village)	March 2007
Ilford	
• Secure planning consent for the health and fitness centre	Sept 2006
• Dispose of land at Ilford for health and fitness centre – gross margin £1.574m.	March 2007
Brentford	
• Complete the ISIG deal with gross margin £3.144m; forward sell affordable housing with gross margin £3.442m	March 2007
General	
• Secure debt funding across the portfolio	June 2006

3.2.1.2 Wood Wharf

The Wood Wharf Partnership was formed in April 2005, a joint venture between British Waterways (BW) and a consortium of Canary Wharf Ballymore (CWB).

Progress to date includes the appointment of Chief Operating Officer, Damian Wisniewski, former FD of Chelsfield PLC and the appointment of the key professional team (Richard Rogers Partnership, BDP, BLP, CBRE, KPMG). Also, detailed refinancing proposals are in progress.

The acquisition of Wood Wharf Property Company Ltd in March 2006 has had a significant impact on the partnership financial projections, which in turn has driven changes to priorities in order to minimise exposure and preserve rates of return. The acquisition was originally planned to occur in tranches from 2012 once development activity was underway, with value payments above existing use carried by the development vehicles. The higher share of value uplift (80% versus 50%) demanded by the tenant has also raised concerns about the quantum required to assemble other interests on the site and valuation advice has been sought on costs for a CPO route on the Hammerson, SBCI and UBS interests. The main risk mitigation strategy is to increase scheme density from 5m sqft to in excess of 6m sqft and to accelerate the planning application to 2006, starting the detailed dialogue with Tower Hamlets before the mould sets around the principles proposed in the area action plan.

The Wood Wharf plan assumes that the following key milestones will be achieved.

Wood Wharf milestones	Date
• Complete £14m refinancing (£7m returned to BW)	June 2006
• Outline Planning application for entire scheme	Dec 2006
• Detailed planning application for phase 1 residential / commercial	Jan 2007
• Planning consent obtained	Dec 2008
• Site RFD obtained on a phased basis	From March 2008
• Tenant negotiations concluded	Dec 2008
• Vacant possession of Cable & Wireless site	March 2009

3.2.1.3 Waterside Pub Partnership

The Pub Partnership is a key delivery mechanism for us to engage with our customers and improve our destinations for activity seekers on the network. Its financial returns are not as significant as some of the major property ventures but its outputs are important for the vision.

All of the licensed units, when developed, should comply with the spirit of the Partnership Sustainability Charter. Licensed units will be designed to enhance and complement any other waterside facilities situated in the immediate vicinity.

The Partnership will introduce a soft brand to its portfolio in line with similar concepts created by S&NPE. The Waterside soft branding, or marque, has been developed to distinguish the pubs within the Waterside Pub Partnership estate and to identify each of the units as being part of the same estate, whilst preserving the individual identity of each. The partnership will seek to ensure that it has an element of localness to its pub operation through the appropriate provision of guest ales, locally sourced foods and community interaction

The Pub Partnership plan assumes that the following key milestones will be achieved.

2006	2007	2008
£361k profit for distribution	£1,434k profit for distribution	£2,146k profit for distribution
£12.4m capital expenditure	£14.7m capital expenditure	£6.9m capital expenditure
2,015 barrels through the partnership	7,496 barrels through the partnership	10,901 barrels through the partnership
Acquire 4 new pubs	Acquire 4 new pubs	Acquire 4 new pubs
Begin development of 9 new pubs	Begin development of 10 new pubs	Begin development of 3 new pubs
Refurbish 2 pubs	Refurbish 3 pubs	-
44 sites operating or under development	58 sites operating or under development	65 sites operating or under development

3.2.1.4 BWML

BWML's financial returns are not as significant as some of the property ventures but its success is key to help expand the number of offline moorings and raise standards in the industry.

BWML will be a leading marina operator, contributing to BW's vision of self-sufficiency and visitor growth. The business will aim to maximise its profitability by providing quality facilities and service to its customers at the appropriate market rates. It will strive to maximise the contribution earned from all marina assets in its current portfolio.

BWML will also look to expand its marina portfolio by actively working with local land owners, agents and British Waterways to find new development opportunities, and by looking for suitable acquisition targets. To further expand the business BWML will assess current and proposed marina sites with a view to creating wider leisure and commercial opportunities.

Despite being a separate corporate entity to British Waterways, its parent company, BWML will operate within British Waterways' core values, as well as seeking to optimise dividends returned to the parent company for reinvestment in the waterway.

Through BWML's drive to align its mooring rate with existing market conditions it is expected that this will enable BW to maximise its revenue generating potential from its mooring portfolio.

Key priorities

- Continue mooring income growth by increases in mooring rates, development of new mooring facilities and the introduction of a new mooring product namely the Platinum Mooring product.
- Delivery of investment plan to increase the facilities at our existing sites and to develop new moorings.
- The smooth integration of Glasson Basin and Diglis Basin into the BWML portfolio in year 1 and then Cheshire and Hungerford in year 2.
- Identification of 2 new sites for acquisition and development in each of 2007/08 and 2008/09.
- The recruitment of a National Retail Manager in order to maximise revenue generation via the development of the retail business throughout the marina group, through refining the retail product offer, and displaying and marketing these product in the most effective manner. The National Retail Manager will also be central to establishing stronger trading partnerships with chandlery suppliers including more focussed buying timescales and a national focus on product procurement to allow maximisation of group buying power.
- Delivering rent to BW of 2006/07 £610k, 2007/08 £716k and 2008/09 £893k.
- Delivery of all BWML policies and procedures 2006/07. The proposal that all policies that BWML follows will be documented presented and readily implemented for new sites in the future. Such policies will include a full accounting and internal control handbook and new employment provisions, internal complaints provision, customer service charter and marketing strategy. These will supplement the pre-existing health and safety policy.

Attainment of RYA Blue Flags to be obtained at all our sites by the end of financial year 2007/08. This is an award that is allocated directly from customers on achievement of excellent customer service disciplines as laid down in the RYA charter.

3.2.2 Other ventures – priorities and milestones

The table below sets out the key priorities and milestones to be achieved by each of the ventures over the three year plan.

Ventures priorities	Milestones
Edinburgh Quay	
The sale of Edinburgh Quay Phase 1 to Deutsche Bank Real Estate Investment has been completed at a purchase price of £46m with a dividend of £3.1m received in 2005/06. A further dividend of £0.4m is expected in 2006/07 if the JPUT structure generates a stamp duty saving as expected. Phase 2 has now commenced. The anticipated completion date of this 55k sq ft office building is November 06 with a distribution of profits expected in 2007/08. Marketing of the available space is ongoing and heads of terms have been issued to a party interested in circa 20k sq ft. Equity into Phase 2 is likely to be between £3m and £3.5m. EQL are also investigating the opportunity to enter a JV with residential developers, Mactaggart and Mickel, to develop the adjoining Arnold Clark garage site, though this will not be pursued until the development profit prospects significantly improve.	Phase 2 completed by Dec 2006 JV on the Arnold Clark site by Dec 2006 Sale of Phase 2 by Dec 2007
Gloucester Quays	
We intend to create a partnership with Peel, based on agreed heads of terms, once planning for the site is granted. In November 2004 the Gloucester Quays scheme gained planning approval for a 60 acre mixed use scheme. In June 2005 we were advised that the scheme had been called in for review by the Secretary of State. The enquiry completed in November 2005 and it is expected that the inspector will submit his report in June 2006. In September 2005 BW completed the sale of land to Gloscat for £2.5m whilst at the same time securing a package of funding from EP of £6m to further the Gloucester Quays development.	Partnership formed September 2005 Delayed until late 2006/07
City Road Basin	
A masterplan was adopted for the area in May 2004 comprising principally residential units plus retail, restaurant, boat club and open space. City Road Basin Ltd has ventured with Groveworld (to form 259 City Road Ltd) to acquire Access Storage Site. The consented scheme is likely to be traded to a residential developer releasing a payment to BW for its land of £3m together with a significant profit to BW via the joint venture company in 2007/08. In February 2006 planning was agreed for a 28 storey residential tower with 203 private and 111 affordable residential units and 9,000 sq ft of commercial space in accordance with the masterplan.	Access Storage exit strategy agreed by May 2006 Purchase of Council land by April 2006
H_2O Urban	
Company set up to develop and regenerate small areas of canal side land in London. Board approval was given for 6 sites, requiring equity of £1.7m. Since then the schemes at Hertford and Enfield have been dropped due to planning issues. Bank facilities have been secured from the Bank of Scotland for £5m. Actons Lock, Hackney is agreed to be directly developed by H_2O Urban.	On site at Actons Lock in March 2006 (deferred from Sept 2005)

Committee approval was received for this site in February 2005 for 25 residential units (6 affordable) and a café, but consent was only granted in September 2005 following the signing of the s106 agreement. H_2O Urban has now acquired land from BW for £450k. The contractor started in March 2006 on a fixed price design and build contract with a build programme of 14 months. The development has been pre-sold to investors for a total of £5.3m. A planning application has been submitted at Burdett Rd, Limehouse (107 residential units) and Branch Place, Hackney. At Burdett Road the application is anticipated to go before the planning committee in July 2006 and, if successful, land traded. Based on offers received to date, if planning is granted H_2O Urban will secure a profit in excess of £1.7m in 2006/07. H_2O Urban declared a profit in 2005 of £0.3m based on the Actons Lock pre sales. Two further sites are being considered for acquisition by H_2O Urban from BW at Norwood and Bow Wharf, which would increase the total maximum equity commitment to £2.7m. It is hoped to add two schemes per year to the H_2O Urban portfolio to generate an annual profit of circa £1m.	Obtain planning for Burdett Road by July 2006 (deferred from March 2006) Land trade the Burdett Road site – September 2006
Timber Basin Limited	
Residential scheme at Firhill Iron Works, Glasgow with 156 units planned. Contamination issues have now been resolved and planning has been approved subject to Section 69 canal works. Work up costs of £0.4m associated with the planning application have been met 50:50 by BW and its partner, Quality Street. Bank terms have been agreed to a total of £3.8m which will allow the purchase of land from Hawkshead (£1.8m) and BW (£0.3m); and carry out remediation works before selling to a developer. At this time we do not have a buyer for the remediated land.	Purchase of Hawkshead and BW land by June 2006 Sell remediated land – Dec 2006
Leeds Canal Basin	
Leeds Canal Basin and Granary Wharf are sister companies which own a development site which is currently used for car parking (generating revenues in excess of £0.5m and profits of £0.1m) and a leisure unit, which is under option to the pub partnership. Isis has acquired 50% of the development site and is progressing planning and is entitled to 50% of the car park profits. A final payment for the remaining interest in the land of up to £2.7 million is forecast in early 2006/07. The final payment has been delayed due to modifications required to the planning application – the final payment to BW is also dependent on planning consent.	Sale of land by March 2005 – delayed to June 2006
Paddington Business Barges	
Three barges are in situ at the basin with leases in place for two barges, and the third still being marketed. Once fully let, a further 3 barges will be procured (at a cost of c. £150k each), funded by either debt or equity. Debt funding is proving challenging given the unique nature of the bank's security. If funded by equity, BW's contribution will be approximately £125k. Barge proposals are being worked up at Tottenham Hale.	Three new barges to basin – June 2006 Delayed to 2006/07

3.2.3 Financial projections

Income	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Waterscape	833	1,091	1,403	208	-	-	-	(625)	(1,091)	(1,403)
BWML	8,464	10,719	12,937	5,970	7,537	9,010	10,783	(2,494)	(3,182)	(3,927)
Total Income	9,297	11,810	14,340	6,178	7,537	9,010	10,783	(3,119)	(4,273)	(5,330)

CBIT	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Waterscape	(151)	38	262	(838)	-	-	-	(687)	(38)	(262)
BWML	210	516	744	189	429	735	1,006	(21)	(87)	(8)
Total CBIT	59	554	1,006	(648)	429	735	1,006	(708)	(125)	(270)

Investment Income (CBIT)	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Isis	1,521	511	505	2,500	1,421	2,415	5,008	978	910	1,911
Watergrid	(10)	(20)	-	(142)	(3)	-	-	(132)	17	-
Waterside Pub Partnership	80	350	250	31	180	500	600	(49)	(170)	250
Edinburgh Quay	2,872	(61)	3,439	2,872	581	3,297	(63)	-	642	(142)
Wood Wharf	2,217	(42)	(42)	1,942	(48)	(48)	(29)	(275)	(6)	(6)
City Road Basin	(27)	672	(31)	(18)	(33)	575	361	9	(704)	606
H20 Urban Ltd	(12)	287	587	(13)	286	185	383	(1)	(2)	(401)
Paddington Business Barges	(26)	(27)	(24)	(25)	(27)	(27)	(28)	1	(0)	(4)
Gloucester Quays	(75)	-	-	-	(150)	(50)	(50)	75	(150)	(50)
Waterwise	5	10	15	5	-	-	-	-	(10)	(15)
Corporate Ventures	55	(214)	(70)	-	-	-	-	(55)	214	70
Total Investment Income (CBIT)	6,600	1,467	4,629	7,152	2,208	6,847	6,182	552	741	2,218
Total Ventures CBIT	6,659	2,020	5,634	6,504	2,637	7,582	7,188	(156)	616	1,948
Gains/(Losses) on Disposal	-	-	-	3,453	-	-	-	3,453	-	-
Cost of Capital Charge	(1,957)	(2,288)	(2,651)	(1,410)	(2,766)	(3,839)	(4,590)	547	(478)	(1,188)
EVC	4,702	(268)	2,983	8,546	(130)	3,743	2,598	3,844	138	760

3.2.4 Financial commentary

The three year plan is a critical period for our ventures to contribute to our vision of self sustainability, building on the successes of 2005/06. We expect dividend contributions from a number of our ventures including isis, Edinburgh Quay, City Road Basin, H_2O Urban and the Waterside Pub Partnership, albeit that the timing of some of these differs from last year's projections.

Isis is the key risk and dividend contributor over the next three years. Thirteen schemes are planned to be on site in this period requiring equity capital from BW of some £24m, in addition to the £14m that will have been invested by the end of 2005/06. This will be matched by £24m from our partners and £50m of bank debt. BW distributions over the three year plan are expected to be £8.8m, on top of the £2.8m distributions received in 2005/06.

Wood Wharf and Gloucester Quays are likely to be significant risks and contributors in the years immediately after the three year plan.

3.2.5 Projected capital investment in Ventures

The following table sets out the amount of loans currently invested into each of the ventures and the projected investment for the three years of the plan.

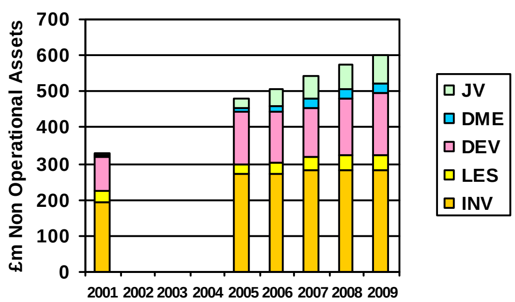
Venture capital invested	Actual 2004/05	Actual 2005/06	Plan 2006/07	Plan 2007/08	Plan 2008/09
Waterscape	0.0	0.0	0.0	0.0	0.0
BWML	2.4	0.3	5.0	5.0	5.0
Edinburgh Quay	1.0	2.4	1.0	0.0	0.0
Timber Basin	0.0	0.0	0.0	0.0	0.0
Waterside Pub Partnership	0.5	0.0	1.9	2.2	1.0
Watergrid	0.1	0.1	0.0	0.0	0.0
isis	2.4	5.7	11.0	13.0	0.0
Wood Wharf	0.0	18.2	3.8	3.0	2.5
City Road Basin	1.0	0.1	0.0	0.0	0.0
Gloucester Quay	0.0	0.0	8.3	1.0	1.0
H_2O Urban	0.3	0.2	0.1	0.0	0.0
Paddington Business Barges	0.0	0.0	0.0	0.0	0.0
Other (Stoke)	0.0	0.0	0.0	0.0	0.0
Leeds Canal basin	0.0	0.0	0.0	0.0	0.0
	7.7	27.0	31.1	24.2	9.5

3.2.6 Risk management

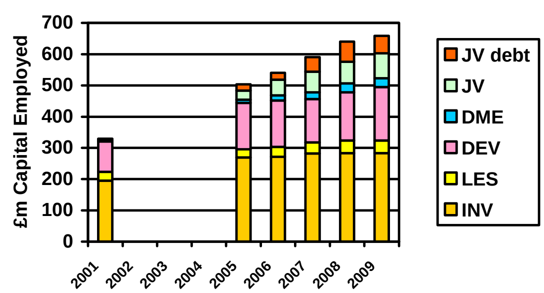
The non-operational property portfolio was valued in December 2005 at £479m. The investment in our joint ventures and subsidiaries at February 2006 was some £46m. This is expected to increase to circa £95m by March 2009. This maximum investment is some £30m more than expected in the previous business plan as a result of the recent progress at Wood Wharf and developments within isis. Despite this significant increase in capital into ventures the total investment in ventures is still only projected to be circa 15% of our total asset base, including all property, leisure capital and ventures.

Adding in BW's share of the projected bank borrowings in ventures by 2006/07, direct development in ventures represents approximately 20% of capital employed, with 50% in the investment estate and 30% BW land trading. This compares to 10% ventures; 60% investment and 30% land trading currently.

Equity invested



Equity Invested plus JV debt



3.3 Leisure

3.3.1 Key leisure priorities

Leisure priorities

- Implement moorings strategy to achieve planned income growth.
- Facilitate growth in boat numbers
- Facilitate growth in new offline marinas
- Continue to target licence evasion
- Develop sponsorship arrangements
- Implement Customer Service Transformation including:
  - Develop key destinations (utilising where appropriate pub partnership, waterscape, sponsorship and property developments)
  - Seven day service
  - Marketing programme to increase visits
  - Programme to increase customer satisfaction

3.3.2 Key leisure milestones

Licensing milestones	Date
• Boat growth of 2% achieved	March 2007
• Boat growth of 3% pa achieved	All future years
• Evasion reduced to 3%	March 2007
• Online renewals via Waterscape represent 20% of non-direct debit transactions	March 2007
• Online renewals via Waterscape represent 40% of non-direct debit transactions	March 2008
Mooring milestones	
• Accurate cost allocation to mooring sites	From April 2006
• 3 new marinas providing 600 new berths	March 2007
• 6 new marinas providing 600 new berths	March 2008
• 9 new marinas providing 1200 new berths	March 2009
Customer milestones	
• Volume and Value Model in place	Sept 2006
• Customer contact centre or alternative determined	Dec 2007
• Network of 30 destinations in place	March 2008
• Network of 60 destinations in place	March 2009
• All costs fully factored into business plans	Dec 2007
• Fully in place & effective	June 2010

3.3.3 Financial projections

Income	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Craft Licences	11,074	11,569	12,100	11,282	11,871	12,295	12,785	208	302	195
Moorings	4,363	4,687	4,895	4,396	4,798	5,095	5,302	33	111	200
Angling	813	857	876	808	908	902	906	(4)	51	26
Leisure Development and Marketing	36	37	38	40	57	49	53	4	20	11
Retail	744	743	700	770	946	1,016	1,073	26	202	316
Attractions	2,359	2,427	2,493	1,993	2,194	2,263	2,308	(367)	(232)	(231)
Total Income	19,390	20,320	21,101	19,289	20,774	21,619	22,428	(101)	454	518

CBIT	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Craft Licences	10,352	10,763	11,351	10,605	11,023	11,439	11,881	253	260	88
Moorings	3,280	3,666	3,958	3,231	3,339	3,621	3,780	(49)	(328)	(337)
Angling	245	261	266	76	238	228	241	(169)	(23)	(38)
Leisure Development and Marketing	(780)	(682)	(764)	(655)	(841)	(879)	(925)	125	(159)	(115)
Retail	(71)	7	(17)	6	21	42	74	77	14	59
Attractions	29	59	39	(319)	43	49	86	(348)	(17)	10
Total CBIT	13,054	14,075	14,832	12,943	13,822	14,499	15,137	(110)	(253)	(333)
Gains/(Losses) on Disposal	-	-	-	13	-	-	-	13	-	-
Cost of Capital Charge	(557)	(555)	(543)	(594)	(627)	(626)	(610)	(38)	(72)	(82)
EVC	12,497	13,520	14,289	12,362	13,195	13,873	14,528	(136)	(325)	(415)

Operating Costs	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Payroll	2,654	2,682	2,766	2,555	2,870	2,981	3,083	99	(189)	(215)
Internal Time Recharges	148	167	167	148	224	228	232	(0)	(57)	(61)
Staff Related Costs	243	214	225	264	315	321	319	(21)	(101)	(96)
Materials and Contract	893	665	623	775	861	864	917	118	(196)	(241)
Plant and Machinery	320	333	334	365	359	370	383	(44)	(26)	(36)
Premises and Office Costs	342	363	377	403	314	344	355	(62)	49	33
Professional Fees	187	187	173	233	210	201	237	(46)	(23)	(28)
Marketing	380	449	451	395	406	422	417	(16)	43	29
Other Costs	810	823	808	820	923	941	961	(9)	(100)	(133)
	5,977	5,883	5,924	5,958	6,484	6,673	6,903	18	(601)	(749)
Depreciation	360	362	345	388	468	448	388	(28)	(106)	(102)
Total Operating Costs	6,336	6,245	6,269	6,346	6,952	7,120	7,290	(10)	(707)	(851)

3.3.4 Financial commentary

Income growth is forecast at 8% during 2006/07 followed by 4% in 2007/08 and 4% in 2008/09. The larger increase in the first year relates to events at Falkirk and increased boat trips at Standedge, increased revenue from exhibitors at the Crick boat show and the Fradley café. The major income elements are craft licensing (57%), moorings (23%) and attractions (11%). Whilst the licence and moorings income figures are fairly robust, the attractions income is more volatile.

Operating costs are forecast to increase by 9.5% in 2006/07 followed by 5.1% and 4.7% in 2007/08 and 2008/09. The increase in 2006/07 is largely due to the additional resources being invested to tackle licence evasion, primarily legal fees and additional staff. The remaining increases reflect inflation and increased activity levels at the attractions and retail outlets, where a large proportion of the costs are variable. In 2008/09 there is an additional £200k of planned expenditure on market research advertising as destinations increase and larger sample sizes are researched.

Economic Value Created rises consistently by between £0.7m and £0.8m across the plan period.

3.4 Regeneration

3.4.1 Overview

Regeneration income is defined as: 'non discretionary' or project based external funding obtained from public bodies, European funding, lottery distributors, certain specific planning agreements and Trusts arising from the role the waterways play in promoting the regeneration objectives of the funders.

Regeneration projects generally provide improvements to the canal infrastructure in terms of access and customer facilities which core funding alone cannot wholly provide. As such they can contribute directly to BW's strategic aims of self sufficiency and increasing visitor numbers as well as achieving the funders' outputs and upgrade of infrastructure. Allocated core funding can normally be used as match funding in some instances, but additional BW financial contribution is sometimes required.

3.4.2 Restoration priorities

Restoration priorities
• Develop funding programme to support enlargement of network
• Segment funding sources and prepare national external funding programme to support visitor enhancement strategy.
• Develop volunteering programme
• Take forward marina construction programme through NMU
• Rationalise TWT contract

3.4.3 Restoration milestones

Restoration milestones	Date
• Publish 2025 Vision	Q3 2006/07
Liverpool Link	
• Start Construction of Link	Q2 2006/07
• Open Liverpool Link to navigation	Q1 2008/09
Bow Back Rivers	
• Reach agreement with the London Development Agency over lease / licence arrangements for the waterways during the construction of the Olympic Park and Games period	Q1 2006/07
• Reach agreement with the Olympic Delivery Authority over BW's role in the delivery of waterway works for the London Olympic Games and Legacy	Q1 2006/07
• Agree with stakeholders the preferred Olympic waterway restoration scheme	Q4 2006/07
• Develop and / or influence detailed design of the Olympic waterways	Q4 2006/07
• Manage or oversee construction / third party works programme	Q2 2007/08

• Monitor construction programme against plans and manage / oversee contracts	Q2 2007/08 and ongoing
Manchester, Bolton & Bury	
• Start construction Phase 1	Q2 2006/07
• Commence feasibility for MBB Phase 2	Q2 2006/07
• Complete feasibility for MBB Phase 2	Q2 2007/08
• Open MBB Phase 1 to navigation	Q3 2007/08
Cotswolds	
• Commence construction	Q3 2006/07
• Complete construction	Q1 2009/10
Droitwich	
• Commence construction	Q2 2006/07
• Complete construction	Q4 2008/09
Northern Reaches	
• Complete development masterplan for NR Phase 1	Q3 2006/07
Montgomery Canal	
• Interreg / HLF works on site	Q1 2006/07
• Submit Stage 2 Big Lottery Fund bid (or similar) and match funding bids	Q3 2006/07
• Secure match-funding to BW positive management in Wales	Q3 2006/07
• Complete first tranche of positive management works in Wales	Q3 2006/07
• First land purchase associated with offline nature reserves in England complete	Q1 2007/08
• Funding for completion of restoration in England secured, review ongoing commitment through Restoration Approval Process	Q3 2007/08

3.4.4 Financial projections

Income	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Third Party Contributions - Regeneration	4,946	8,170	7,587	5,068	7,697	6,117	4,503	122	(474)	(1,470)
Third Party Contributions - Restoration	17,491	23,112	23,131	5,746	21,171	30,160	25,933	(11,745)	(1,942)	7,030
Other Income	312	356	264	367	395	240	254	55	40	(25)
Total Income	22,749	31,638	30,981	11,182	29,263	36,517	30,690	(11,567)	(2,376)	5,535

CBIT	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Regeneration	(1,746)	(1,724)	(1,714)	(1,505)	(1,966)	(1,524)	(1,562)	241	(242)	189
Restoration	(719)	(646)	(598)	(1,296)	(1,524)	(1,566)	(1,774)	(576)	(878)	(968)
Total CBIT	(2,465)	(2,371)	(2,311)	(2,800)	(3,490)	(3,091)	(3,336)	(335)	(1,119)	(779)
Cost of Capital Charge	(133)	(104)	(133)	(182)	(131)	(131)	(131)	(49)	(27)	2
EVC	(2,598)	(2,475)	(2,444)	(2,982)	(3,621)	(3,221)	(3,467)	(384)	(1,146)	(777)

Operating Costs	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Payroll	1,097	1,191	1,187	1,146	1,894	1,638	1,676	(49)	(703)	(451)
Internal Time Recharges	602	633	437	655	803	612	609	(53)	(170)	(175)
Staff Related Costs	301	280	140	460	465	529	269	(159)	(185)	(389)
Materials and Contract	20,333	29,594	28,913	9,135	23,936	33,471	28,326	11,198	5,658	(4,558)
Plant and Machinery	5	-	-	30	-	-	-	(25)	-	-
Premises and Office Costs	36	38	39	117	87	59	58	(81)	(48)	(20)
Professional Fees	2,770	2,180	2,512	2,207	5,312	3,127	2,884	563	(3,132)	(615)
Marketing	10	10	10	51	129	34	58	(41)	(119)	(24)
Other Costs	12	35	5	74	79	88	97	(62)	(44)	(83)
	25,166	33,960	33,244	13,875	32,704	39,558	33,977	11,291	1,257	(6,314)
Depreciation	48	48	48	107	49	49	49	(59)	(0)	(0)
Total Operating Costs	25,214	34,009	33,293	13,982	32,753	39,607	34,026	11,232	1,256	(6,315)

3.4.5 Financial commentary

Four major restoration schemes are now funded, with the focus turning to the management of land acquisition, planning and construction risks. Income and expenditure phasing reflect this.

Major restoration schemes have been rephased due to developments during 2005/06, resulting in a £1.9m reduction in income to be received in 2006/07, but a £7m increase in the following year. In particular, this is due to the deferral of works on the Bow Back Rivers restoration, resulting in £2.4m and £4.5m increases in income in years 1 and 2 respectively, with the Liverpool Canal Link income streams reducing by £1.8m in 2006/07 and increasing by £5.9m in the following year. Delays with other schemes, most notably the Cotswolds and Droitwich restorations also cause a switch of income from year 1 into the following years.

However, this has a relatively minor impact on total contribution as the project expenditure profiles have largely been changed accordingly. The resulting variances reflect the timing differences of unfunded costs.

The plan reflects a reduction in third party income for small scale regeneration schemes, which has an impact of £0.5m in year 1 and £1.5m in year 2.

3.4.6 Key areas of risk

- Funding gap for the Cotswolds Canals Restoration
- Bowback Rivers funding package
- Acceptance of revised 2025 document
- Project delivery (land acquisition, planning, construction and outputs)
- Planning obstacles relating to development of new marinas.

3.5 Core Waterway

3.5.1 Core Waterway priorities

Four of the 'moments of truth' identified through the Customer Service Transformation research impact significantly on core waterway priorities and associated outputs will be the clear focus for the General Works Programme into the future.

The elements that will provide focus in core waterway are:

- *First impressions* – parking, information boards, cleanliness, 7 day service.
- *Safe Passage* – personal safety and security, disabled access, Access for All.
- *Spick and span* – Tow path tidy, vegetation management, toilets, dog waste.
- *Guiding hand* – local staff such as lock keepers, volunteers, 7 day service, information boards and Waterscape.com.

Core Waterway priorities

- Prepare the 'draft' contract with Defra for implementation from April 2007, by identifying optimal cost based for adequate care of assets going forward and benchmark activities to reduce costs.
- Introduce and achieve new customer focused waterway standards to support an affordable programme of customer improvements targeted at leisure business priority areas.
- Create a full major works programme scored by BBPI to include finalisation of the arrears programme, necessary safety works to our reservoirs and non-arrears major works.
- Establish a robust new process of project approval which is auditable to ensure value for money is obtained on all major works, integrating a 'change process' to authorise deviations from the full major works programme
- Ensure effective implementation of management of contractors across the business through inspection and audit.
- Ensure effective reporting of accident, incident and near miss event is undertaken by small contractors
- Business wide campaigns targeting manual handling, slips and trips and occupational road risk including computer based driver risk assessment.
- Increase focus on accident prevention by addressing near misses and unsafe acts throughout the business and developing more effective incident reporting and investigation processes.
- Freight strategy including waste by water projects
- Deliver arrears programme (to national phased consequence of failure strategy)
- Identify optimal cost base for adequate care of assets going forward and benchmark to reduce costs.
- Increase use of recycled material.
- Continue to develop and implement plans for the use of operational capital expenditure.

- Target discretionary operational spending to complement priorities in other business areas.
- Initiate effective heritage management to drive towards greater self-regulation by developing our internal expertise and knowledge
- Initiate discussion on reclassification of waterways.

3.5.2 Core Waterway milestones

Core Waterway milestones	Date
• Draft ‘contract’ ready for Board Approval including revised waterway standards and cost assessments	Sept 2006
• Draft programme all major works including arrears, reservoir safety and non-arrears major works projects	June 2006
• Implementation of contract with Defra.	April 2007
• Fully ranked and scored programme of all major works including arrears, reservoirs and non-arrears major works projects	March 2007
• A 50% reduction in reportable incidents to achieve upper quartile DTI benchmark.	March 2007
• Completion of 400 worksite safety inspections by senior management team members	March 2007
• A 25% reduction in both manual handing and slips trips and fall categories.	March 2007
• Environment & Heritage teams and waterway supervisors to deliver heritage awareness to all waterway staff.	March 2007
• All existing Buildings at Risk removed from English Heritage register.	April 2008
• All existing (Dec 2004) Buildings at Risk removed from Local Authority registers/	April 2009
• Extend and modernise hydrometric and SCADA network to deal with new regulatory regime	March 2007

3.5.3 Financial projections

Income	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Operational Property, Wayleaves etc.	6,236	6,414	7,787	7,427	8,827	6,660	6,869	1,191	2,413	(1,127)
Recharges	1,000	941	1,156	1,194	1,087	807	807	195	146	(349)
Third Party Contributions	1,283	762	765	2,082	650	1,242	661	799	(112)	477
Maintenance Income	4,467	3,913	3,595	4,608	3,859	4,247	3,400	141	(55)	652
Freight	712	725	738	597	761	789	836	(115)	36	52
Other Income	506	770	526	626	767	466	414	119	(3)	(60)
Total Income	14,203	13,524	14,567	16,534	15,950	14,213	12,987	2,330	2,426	(354)

Operating Costs	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Payroll	33,315	35,089	35,973	32,839	34,830	36,232	37,282	476	259	(259)
Internal Time Recharges	(1,131)	(958)	(1,122)	(1,002)	(1,637)	(1,298)	(1,005)	(130)	679	176
Staff Related Costs	3,841	3,395	3,465	3,756	3,218	3,268	3,345	85	177	197
Materials and Contract	15,224	15,386	17,086	17,356	19,181	19,784	18,413	(2,132)	(3,795)	(2,698)
Plant and Machinery	3,342	3,504	3,621	3,597	4,383	4,561	4,953	(255)	(879)	(940)
Premises and Office Costs	3,323	3,394	3,479	3,688	4,223	4,445	4,443	(365)	(829)	(965)
Professional Fees	899	1,029	901	1,787	1,492	1,292	1,010	(888)	(463)	(391)
Marketing	730	605	628	709	566	518	523	21	40	110
Other Costs	2,222	2,215	2,243	3,389	1,193	1,228	1,235	(1,168)	1,022	1,015
	61,764	63,659	66,273	66,118	67,449	70,030	70,198	(4,355)	(3,790)	(3,757)
Depreciation	1,933	1,821	1,777	2,528	2,012	1,900	1,802	(596)	(190)	(124)
Total Operating Costs	63,696	65,480	68,050	68,646	69,461	71,930	72,000	(4,950)	(3,981)	(3,880)

CBIT	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Total CBIT	**(50,068)**	**(52,540)**	**(54,052)**	**(52,662)**	**(54,025)**	**(58,256)**	**(59,578)**	**(2,594)**	**(1,485)**	**(4,204)**
Gains/(Losses) on Disposal	82	10	19	166	122	1	173	85	112	(18)
Cost of Capital Charge	(1,341)	(1,356)	(1,352)	(1,277)	(1,366)	(1,303)	(1,285)	64	(9)	50
EVC	(51,327)	(53,886)	(55,385)	(53,772)	(55,269)	(59,557)	(60,689)	(2,445)	(1,383)	(4,172)

3.5.4 Financial commentary

Income

The increase in income for year one relates primarily to a £1.8m property premium for the Pineham North site in the South East, which was previously planned across 2007/08 and 2008/09. This is supplemented by a further £0.5m premium relating to the Bede Island site in the East Midlands, together with an additional £0.1m in London.

Controllable costs

Core Waterway expenditure has been increased from 2006/07 onwards, by the allocation of £5m from the previously ring-fenced Priority Projects budget to tackle some of the key elements of customer service on the waterways. Allocations to local Waterway Units has been determined by the first draft results of the Steady State Model. The additional funds are focused on improvements to the customer experience, driven by the 'moments of truth', which have been identified through the Customer Service Transformation. In particular, there will be significant improvements vegetation management, costing £2.9m, and general cleanliness, £1.8m. Additionally £2.4m will be invested in lock gate replacement, equating to the replacement of 4% of lock gates per annum over the plan period.

The emphasis in 2006/07 will be to measure outputs against waterway standards to identify benchmark costs and best practice for adoption across all units from 2007/08. This will enable the outcomes from the service level agreement with Government to be achieved through robust monitoring and control processes. A pilot contract will be introduced in the Wales and Border Counties and the East Midlands Waterway Units during 2006/07 to test the systems, ensuring that data capture is robust and measurement against standards is auditable. Also, the actual cost of achieving the planned outputs from each activity will be monitored against the cost estimates within the Steady State Model, ensuring that these are refined accordingly.

The pilots will inform decisions regarding the draft contract in September 2006 and will highlight areas where further work may be required prior to the commencement of the contract in 2007/08.

All Waterway Units have a detailed plan for their general works programme activities for the coming year and will be monitored against all outputs and cost estimates on a quarterly basis. There will be a strong focus on efficient use of resources to achieve the planned outputs, with opportunities for cost savings and best practice being sought. Further details of core activities are provided in the appendix.

3.6 Corporate Services

3.6.1 Corporate services priorities

Corporate Services priorities

- Significantly reduce occupied property costs
- Implement outputs of the 'New ways of Working' project to achieve cost benefits
- Take SAP usage to the next level, with the focus on a step change in consistency and data quality

3.6.2 Corporate services milestones

Corporate Services milestones	Date
• New Ways of Working outputs implemented	March 2007
• SAP super users trained and improving local usage and data quality	March 2007
• All offices to achieve 60/40 space planning	March 2008

3.6.3 Financial projections

Operating Costs	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Waterway Units										
Central Shires	676	676	500	640	503	528	557	36	173	(28)
East Midlands	439	444	434	447	440	430	430	(9)	4	3
London	1,652	1,661	1,599	1,653	1,574	1,549	1,650	(0)	87	51
North West	830	632	621	839	637	644	651	(9)	(4)	(23)
Scotland	1,451	1,501	1,497	1,376	1,412	1,407	1,572	75	89	90
South East	669	660	504	676	630	624	527	(7)	30	(120)
South West	611	621	500	592	510	460	414	19	111	39
Wales and Border Counties	696	707	673	715	694	714	733	(19)	13	(41)
West Midlands	805	802	625	827	753	607	512	(22)	49	18
Yorkshire	1,134	1,142	600	1,074	348	340	604	60	795	259
Total Operating Costs	8,962	8,846	7,553	8,837	7,500	7,304	7,651	124	1,346	249
Cost of Capital Charge	(93)	(86)	(77)	(117)	(444)	(440)	(258)	(25)	(358)	(363)
EVC	(9,054)	(8,932)	(7,630)	(8,955)	(7,944)	(7,744)	(7,909)	100	988	(114)

3.6.4 Financial commentary

The principal difference from last year's plan is the removal of the Operational Property Company. This was previously used to apply a notional rent to all properties occupied for operational purposes in any business area, with the corresponding income feeding into the Corporate Services business area at corporate level. The removal of all transactions associated with this concept greatly simplifies our accounting processes and will facilitate a greater focus on capital employed in each business area. As a result, this year's plan reflects cost reductions across the operational business areas and the removal of the corresponding internal income within Corporate Services.

There are very few other movements in this business area compared to last year's plan. The main exceptions relate to:

- a change in the method of calculating the internal rent charge by the Yorkshire waterway unit to other BW departments occupying space within the Fearns Wharf building. This results in a favourable movement for the local unit in year 1, with the majority of the increased cost being borne by central teams.
- a delay in the Yorkshire office move, which results in a reduction in the previously planned savings for 2007/08. The proposed move from Leeds to Wakefield is under review as it is now thought that the potential cost savings could be achieved by re-organising the existing office space, with a possible partial let to external tenants.
- cost increases across a number of waterway units in 2007/08 arise from the challenging targets set last year for 60/40 working arrangements and other benefits from the New Ways of Working project. Outputs from the project have been developing more slowly than expected and resulting savings will therefore be achieved only in the longer term.
- the running costs of the London offices have proved to be lower than previously planned, resulting in some savings in this year's plan.

3.7 Major Works

3.7.1 Financial projections

CBIT	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Arrears	(24,959)	(28,380)	(28,511)	(25,685)	(25,148)	(25,126)	(24,478)	(726)	3,232	3,385
Dredging	(3,970)	(4,170)	(4,170)	(6,859)	(6,131)	(6,002)	(6,004)	(2,889)	(1,962)	(1,832)
Other Major Works	(1,807)	(187)	(653)	(2,709)	(545)	(58)	(50)	(902)	(358)	595
Total CBIT	(30,736)	(32,736)	(33,334)	(35,253)	(31,824)	(31,186)	(30,532)	(4,517)	912	2,148
Gains/(Losses) on Disposal	-	-	-	(23)	-	-	-	(23)	-	-
Cost of Capital Charge	(11)	(10)	(11)	(10)	(33)	(34)	(35)	1	(23)	(23)
EVC	(30,746)	(32,747)	(33,345)	(35,286)	(31,857)	(31,220)	(30,567)	(4,540)	890	2,125

Operating Costs	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Payroll	780	860	871	724	790	820	823	56	70	51
Internal Time Recharges	2,017	1,974	2,252	1,897	2,232	1,781	1,312	120	(259)	471
Staff Related Costs	170	139	139	268	134	149	138	(98)	5	(10)
Materials and Contract	28,238	30,499	28,435	31,840	29,332	27,074	26,666	(3,602)	1,167	1,361
Plant and Machinery	165	92	86	409	121	11	11	(243)	(29)	75
Premises and Office Costs	135	144	142	103	143	145	147	32	0	(3)
Professional Fees	1,635	1,668	1,696	3,144	2,100	2,058	1,395	(1,509)	(431)	(362)
Marketing	4	3	-	19	-	-	-	(15)	3	-
Other Costs	73	74	73	101	62	24	28	(28)	11	49
	33,217	35,453	33,694	38,505	34,916	32,061	30,520	(5,288)	537	1,633
Depreciation	11	11	11	22	13	11	12	(12)	(1)	0
Total Operating Costs	33,228	35,464	33,706	38,528	34,929	32,072	30,532	(5,300)	536	1,633

3.7.2 Financial commentary

Arrears

All outstanding arrears of maintenance have been identified and programmed nationally according to our Business Benefits Prioritisation Index (BBPI). This takes a number of key factors into account, ensuring that those works with the most significant safety risks and customer service impact are tackled as a priority. There is a 3 year cycle for most major works, with the concept and scoping phase of the project in year 1, design and solution in year 2 and construction and delivery in year 3 onwards to enable the most optimum solution for each project in terms of operational and financial efficiency.

A decision has been taken this year to switch a net £3m of funding from the arrears programme into general works programme in order to address improvements in routine maintenance and customer service that Waterway Units would not have been able to achieve within the constraints of their prior year plan. Such activities include tree management and spot dredging.

It is anticipated that the level of outstanding statutory arrears at the end of the financial year 2005/06 will be £119m.

3.7.3 Financial projections by business unit

CBIT by BU	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Arrears										
Central Shires	(1,890)	(2,248)	(2,248)	(1,939)	(2,432)	(2,885)	(2,667)	(49)	(184)	(637)
East Midlands	(1,173)	(1,394)	(1,394)	(813)	(1,263)	(1,306)	(1,512)	360	131	88
London	(1,246)	(1,482)	(1,482)	(2,993)	(1,685)	(1,350)	(1,304)	(1,747)	(203)	132
North West	(4,183)	(4,973)	(4,973)	(4,908)	(4,730)	(3,817)	(3,450)	(726)	243	1,156
Scotland	(2,705)	(1,980)	(2,107)	(1,786)	(1,835)	(2,300)	(1,800)	919	145	(193)
South East	(1,946)	(2,314)	(2,313)	(1,764)	(2,226)	(2,406)	(2,600)	182	88	(93)
South West	(1,670)	(1,510)	(1,510)	(1,852)	(1,012)	(1,300)	(1,500)	(182)	498	210
Wales and Border Counties	(4,682)	(5,566)	(5,566)	(4,250)	(4,490)	(4,250)	(4,001)	431	1,076	1,316
West Midlands	(3,008)	(4,052)	(4,052)	(2,959)	(3,272)	(3,100)	(3,000)	49	780	952
Yorkshire	(1,996)	(2,373)	(2,372)	(1,996)	(1,810)	(2,000)	(2,200)	(0)	563	372
Centre	(460)	(487)	(493)	(424)	(392)	(414)	(444)	37	96	80
Total Arrears CBIT	(24,959)	(28,380)	(28,511)	(25,685)	(25,148)	(25,126)	(24,478)	(726)	3,232	3,385
Dredging										
Central Shires	(469)	(469)	(469)	(654)	(745)	(745)	(745)	(185)	(276)	(276)
East Midlands	(351)	(351)	(351)	(501)	(595)	(597)	(599)	(150)	(244)	(246)
London	(200)	(400)	(400)	(650)	(760)	(760)	(760)	(450)	(360)	(360)
North West	(470)	(470)	(470)	(860)	(871)	(870)	(870)	(390)	(401)	(400)
Scotland	-	-	-	-	-	-	-	-	-	-
South East	(385)	(385)	(385)	(431)	(625)	(625)	(625)	(46)	(240)	(240)
South West	(586)	(586)	(586)	(905)	(770)	(770)	(770)	(318)	(184)	(184)
Wales and Border Counties	(600)	(600)	(600)	(1,125)	(646)	(645)	(645)	(525)	(46)	(45)
West Midlands	(439)	(439)	(439)	(943)	(675)	(545)	(545)	(505)	(236)	(106)
Yorkshire	(470)	(470)	(470)	(790)	(445)	(445)	(445)	(320)	25	25
Total Dredging CBIT	(3,970)	(4,170)	(4,170)	(6,859)	(6,131)	(6,002)	(6,004)	(2,889)	(1,962)	(1,832)
Other Major Works										
Central Shires	(150)	-	-	(150)	-	-	-	0	-	-
East Midlands	(1)	(1)	(1)	(1)	(1)	-	-	(0)	(0)	1
London	(235)	-	-	(210)	(45)	-	-	25	(45)	-
North West	(160)	-	-	(161)	-	-	-	(1)	-	-
Scotland	(400)	-	-	(408)	-	-	-	(8)	-	-
South East	(164)	(50)	(300)	(739)	(50)	(50)	-	(576)	(0)	250
South West	(207)	(7)	(7)	(324)	(93)	(8)	(50)	(116)	(86)	(0)
Wales and Border Counties	-	-	-	(0)	-	-	-	(0)	-	-
West Midlands	(150)	-	-	(151)	(356)	-	-	(1)	(356)	-
Yorkshire	(340)	(129)	(345)	(565)	-	-	-	(225)	129	345
Total Other Major Works CBIT	(1,807)	(187)	(653)	(2,709)	(545)	(58)	(50)	(902)	(358)	595

3.8 Utilities

3.8.1 Utilities priorities and milestones

Utilities priorities	Milestones
• [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000] by strengthening our relationship, and ensuring BW complies with its obligations under our agreement	• [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]
• Ensure BW complies with the conditions of the electricity, gas and BT agreements so our income is secure	• [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]
• With our new mast partner seek to develop 24 mast sites in 06/07	• 44 mast sites by March 2007
• Maintain SWD Agreements	• [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]
• Following success of SWD with Water Companies and area worth investigating is highway discharges. This has been reviewed some 10 years ago	• Identify if there is a business worth pursuing by November 2006
• Seek Olympic sites for masts and easynet	• Inclusion of opportunities in all BW London submissions
• Review management information in the new format corporate accounts, ensuring all reports reconcile to the utilities plan	• June 2006
• Secure electricity contract with Scottish electricity for [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000] arrears	• December 2006
• NGT (gas) assignment premium of [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]	• December 2006

3.8.2 Financial projections

Income	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Utilities (Electricity, Gas, Telecoms)	9,364	9,457	9,554	9,636	9,465	9,601	9,667	273	8	46
Water Sales	3,974	4,185	4,407	3,909	4,066	4,216	4,310	(65)	(118)	(190)
Surface Water Discharges	6,212	2,604	2,604	7,145	3,002	2,969	2,969	933	398	365
Total Income	19,550	16,246	16,565	20,691	16,534	16,786	16,947	1,141	288	221

CBIT	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Utilities (Electricity, Gas, Telecoms)	9,022	9,110	9,225	9,268	9,184	9,307	9,362	246	74	82
Water Sales	3,741	3,948	4,167	3,728	3,833	3,971	4,050	(12)	(115)	(196)
Surface Water Discharges	6,212	2,604	2,604	7,145	3,002	2,969	2,969	933	398	365
Total CBIT	18,975	15,662	15,996	20,142	16,019	16,247	16,382	1,167	357	251
Cost of Capital Charge	-	-	-	-	-	-	-	-	-	-
EVC - Utilities	18,975	15,662	15,996	20,142	16,019	16,247	16,382	1,167	357	251

3.8.3 Financial commentary

The reporting for this part of the business has been restructured to create a new business area for Utilities in the final version of plan. Income and expenditure will be captured within the new Utilities Central business unit and subsequently apportioned across the Waterway Units.

Plan projections show a £0.4m increase in income from surface water discharge agreements, primarily driven by the revised agreements concluded in the prior year. It is important that relationships with these major customers are managed carefully and this will be an ongoing priority for the team in order to protect the income streams. Together with up to £0.1m of cost reductions per annum, the plan shows healthy growth on the prior year projections, although this is partially negated by a comparative reduction in water sales income, due to the enforced renegotiation of some historic agreements.

However, there are potential upsides which have not been included in the plan figures at this stage, due to their uncertainty at this stage. These include a potential £140k of income from [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]

3.9 Corporate HQ Departments

3.9.1 Financial projections

CBIT	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Finance	(9,241)	(9,256)	(9,161)	(10,222)	(11,083)	(10,706)	(10,767)	(981)	(1,827)	(1,545)
Personnel	(2,898)	(3,730)	(3,788)	(3,253)	(3,209)	(3,189)	(2,881)	(355)	521	599
Legal	(1,395)	(1,429)	(1,471)	(1,339)	(1,470)	(1,503)	(1,385)	57	(42)	(32)
Technical	(4,657)	(6,833)	(7,806)	(4,921)	(5,900)	(6,038)	(6,238)	(264)	933	1,768
Commercial	(158)	(21)	75	(226)	99	252	338	(68)	121	177
Marketing & Communications	(2,216)	(1,992)	(2,422)	(2,512)	(3,702)	(2,799)	(3,022)	(296)	(1,710)	(377)
Executive	(2,839)	(2,912)	(2,988)	(2,975)	(2,681)	(2,641)	(2,709)	(136)	231	347
Workshops	22	2	1	(184)	12	10	8	(207)	10	9
Planning Adjustments	(1,285)	610	1,950	(2,300)	(2,404)	(2,512)	(3,994)	(1,015)	(3,014)	(4,462)
CBIT - Corporate HQ Departments	(24,666)	(25,560)	(25,610)	(27,931)	(30,339)	(29,127)	(30,651)	(3,265)	(4,778)	(3,517)
Interest Payable	(2,067)	(1,240)	(402)	(1,810)	(1,624)	(1,372)	(1,235)	257	(384)	(970)
Interest Receivable	603	540	540	1,822	1,640	1,640	1,640	1,219	1,100	1,100
CBT - Corporate HQ Departments	(26,130)	(26,260)	(25,472)	(27,919)	(30,322)	(28,859)	(30,246)	(1,790)	(4,062)	(3,387)
Gains/(Losses) on Disposal	100	100	-	-	1,350	100	100	(100)	1,250	100
Cost of Capital Charge	(750)	(1,236)	(1,135)	(1,617)	(920)	(987)	(987)	(867)	315	148
EVC - Corporate HQ Departments	(25,316)	(26,696)	(26,745)	(29,548)	(29,909)	(30,015)	(31,538)	(4,232)	(3,213)	(3,269)

3.9.2 Financial commentary

The adverse contribution variances within Head Office are caused primarily by the allocation of funding to specific Headquarters activities, which was held within the Priorities Fund in last year's plan.

Within the Finance Directorate, cost increases include £0.6m for business rates, which have been applied to the canals. This decision is being appealed, but until any reversal of the decision is confirmed, the charges will remain in the plan. Also, the SAP upgrade and other IT developments are included across years 1, 2 and 3 at a cost of £0.8m, £0.6m and £0.5m respectively.

As yet unallocated costs associated with future training requirements have been removed from the Personnel plan, which, together with payroll savings arising from the restructure of the pension fund administration, contribute to savings of £0.5m and £0.6m in years 1 and 2 of the plan.

This year's plan for the Legal Directorate incorporates the higher cost of the Ombudsman service.

The Technical Directorate plan now no longer includes the lease charges for new acquisitions of floating plant. These have been planned locally within the Waterway Units, resulting in savings across the plan period within Head Office.

The Commercial plan now incorporates new income from sponsorship agreements, together with some minor operating cost increases.

The first year of the Marketing & Communications plan includes £1m of proposed expenditure relating to improvements driven by the Customer Service Transformation. In addition, Waterscape.com has been integrated into the Marketing team from April 2006, with its primary focus being to provide an on-line marketing function for BW. Key aims will be to improve the content and navigation within the web-site, to sustain the number of site hits and to perform within the planned financial targets.

Savings within the Executive Team reflect a reduction in salary and associated costs, together with a reduction in fees paid to The Waterways Trust.

The financial plan for the Workshops remains largely unchanged from the prior year. However, there is now a more robust process in place for planning lock gate replacements over a three year period, which provides the Workshops with greater certainty and flexibility to maximise productivity and manufacture gates in the most cost effective way.

Planning adjustments in the prior year plan included speculative income for operational premia, which are now planned within the Waterway Units. This year's plan contains only the pension fund deficit payments, which were previously included within the Priorities Fund.

4 RISKS AND OPPORTUNITIES

4.1 Risks

4.1.1 Funding

The plan includes a grant reduction of 5% in year 1 and 4% thereafter for England and Wales, following an instruction from defra. The extent of any further grant reduction has not yet been confirmed by defra. This may have a material impact on our ability to achieve planned outputs and results in a level of contingency funding which is lower than desired.

4.1.2 Wood Wharf

The Wood Wharf Partnership has already faced some important decisions over the last few months, having the opportunity to acquire significant landholdings earlier than originally planned. Further decisions about development structure and cashflow requirements are likely to have a major impact on the capital and revenue streams in our future plans. At this stage it is assumed that the revenue streams will fall outside of the three year period covered by this plan. There is a significant risk that further unbudgeted capital will be required within the timescale of this plan.

4.1.3 Other major business ventures

Challenging plans are in place for the other major business ventures such as isis, BWML, Waterside Pub Partnership and Edinburgh Quay. Whilst we believe the plans are achievable, there are clearly risks of underachievement in these areas.

4.1.4 Regeneration and restoration

The plan currently reflects annual financial contributions of up to £2m by BW in respect of the planned major restoration schemes. Generally, exposure is limited for fully funded projects as expenditure will slip accordingly if income is delayed. However, certain schemes, such as the Droitwich and Cotswolds will require BW to carry the risk of cost overrun. It will therefore be critical that any potential cost over-runs are identified early through effective project management, with robust cost control and contract management processes in place. Depending on the phasing of the schemes, we may need to provide contingent cover for these risks in addition to the operating costs contingency included in the plan. This is estimated to amount, potentially, to a further £2m.

There is a presumption that staff costs currently covered by third party funding can be absorbed into vacancies in the core business if project staffing requirements change.

4.1.5 Rochdale Canal

A number of potential liabilities remain extant in respect of our responsibilities for the Rochdale Canal. Contracts are in place for works to be carried out, which we expect to be at least partially funded by existing claims against Manchester City Council. However, the cost of the works and the potential income receivable can only be estimated at this stage and may result in a call upon contingency funds.

4.1.6 Regulation

National and European legislation continues to place greater burdens on BW as a navigation authority and public body. A range of new regulations will impact for example the Water Framework Directive, the Water Act and contaminated land/waste management regulations. The impacts will be clearer as the full requirements emerge. We have planned for greater resource in these areas but there is a risk it will not be sufficient.

We continue to aim to comply fully with the Freedom of Information Act by being clear and proactive about the information that we will make public and will ensure that resources are available for this purpose. We produced a publication scheme last year, listing out the information we had already published and information to be published in the future. We also clearly indicate where access to documents will incur a charge. Our publication scheme is available on our web-site and in traditional hard copy form.

4.1.7 Release of office space

This plan includes proposals to vacate premises at Willow Grange as well as reviewing all office accommodation based on the principal that we only need to provide space for 60% of office-based staff. Clearly, if these proposals are further delayed, the savings in this plan will not be achievable.

4.1.8 Carmuirs Tunnel Claim

Following the collapse of the railway tunnel on 9th November 2002, BW assisted Network Rail, temporarily transferring land to Network Rail to facilitate access for repairs to be undertaken. The Forth & Clyde Canal was also drained between Locks 16 and 17 to further assist with site access. The railway was re-opened on 25th November 2002. Temporary reinstatement repairs were undertaken to allow the canal to re-open on 28 March 2003 and the canal was also closed between January and March 2005 to allow Network Rail to return to the site to complete permanent reinstatement works.

However, a letter of claim was received in December 2005 from a solicitor representing Network Rail. This alleges that the cause of the tunnel collapse was a build up of hydrostatic pressure arising from work which took place on BW land and that, as a result, Network Rail have suffered an estimated loss of £3.7m.

BW Scotland have appointed solicitors through whom the allegation has been strongly refuted. While BW stands by its position and has initiated further investigations to support an engineering report prepared at the time of the tunnel collapse, there remains a risk of costs being incurred, which are currently not provided for within the plan.

4.1.9 Other Major Works

While the plan includes financial provision for outstanding arrears and dredging works, the cost of other potential outstanding major repairs and renewals has not yet been fully quantified. Investigations are ongoing to identify and quantify all significant outstanding major works, so that these can be prioritised and programmed within future plans. There is a risk that the financial impact of such works may exceed the amount provided for within the Steady State projections.

4.1.10 Targeted Savings

Target areas have been identified to provide savings of £1.5m and £3m in years 2 and 3 of the plan, although specific savings have yet to be fully quantified. If these savings are not achieved, there will not be sufficient contingency funds within the plan.

4.1.11 Pensions

The plan includes sufficient funding to cover the pension deficit payments that were identified at the last triennial review of the pension scheme. However, there are clearly ongoing risks in this area, related to actuarial assumptions such as life expectancy and investment market performance.

4.2 Opportunities

4.2.1 Inland marina investment

The inland marina investment guide is designed to attract new investment in marinas in order to satisfy the level of growth in boat numbers that we believe is possible. BW will derive additional income from this new investment, in the form of connection fees and additional licence income, which is currently not included in the plan.

4.2.2 Reducing overheads and operating costs

This plan targets savings in overheads which will be the subject of a thorough review during the course of 2006/07 and which may lead to greater savings than those targeted..

Target savings have been included for operating costs which will also be tackled during the early part of the plan period. The cost of performing routine operations in the Waterway Units, including maintenance and customer service activities, will be analysed with reference to the Steady State Model and benchmark target costs determined for each activity. By focusing on core activities and driving through best practice methods of working, significant savings may be achievable in excess of the target.

4.2.3 Customer Value Growth

Progress with the Customer Service Transformation research phase has provided a much clearer view of BW's customer base as well as targeted areas of focus for improving the customer experience.

The plan includes £1m of further investment to implement some of the key requirements already identified. However, the potential income to be generated from this investment is not yet included.

4.2.4 Business rates

The plan now includes a charge of approximately £0.7m per annum for business rates, which were assessed on the canals for the first time in the current year by the ODPM. A process of appeal against the decision, or at the very least for transitional relief if the decision to charge cannot be overturned, is progressing. If successful, this will provide an upside on current plan projections.

4.2.5 Olympics

The decision to stage the 2012 Olympics in London provides a catalyst for the regeneration of the whole area covered by the Olympics site and advances BW's plans for restoring the Bow Back Rivers by about five years. BW has the opportunity to participate in up to £50m of waterway-related infrastructure investment, including the refurbishment of waterway walls and bridges, as well as landscaping and public realm works as part of the Olympic Park development. Subject to reaching agreement with the Olympic Delivery Authority (ODA), BW is seeking a pro-active role in the management and delivery of the waterway-related works. However, BW is currently having to fund studies and feasibility works to promote its ideas with the London Development Agency and the ODA and this will continue until the delivery plan is formally agreed.

Perhaps the most significant opportunity is presented by the post-Olympics legacy, creating, from derelict land, a truly first class visitor destination in East London, which is of international quality. BW's preferred option is the impounding of the Bow Back Rivers to create a stable and sustainable environment. Time and funding is being invested to ensure that the benefits of this option are promoted and understood by all relevant parties, in order to convince the ODA and planning authority.

Longer term, it is likely that BW will be asked to contribute in some way to the Olympic development scheme, although this may be achieved by investing commercial capital in Olympics-related assets which have long term income-generating potential, such as marinas.

APPENDICES

A1 Financial Summary by Business Unit

Results by BU	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Income										
Central Shires	5,013	5,134	5,232	5,515	8,477	7,815	7,293	502	3,343	2,584
East Midlands	3,715	5,467	5,958	4,098	4,664	4,834	4,078	383	(803)	(1,124)
London	22,972	24,480	24,667	21,869	27,803	29,097	28,831	(1,103)	3,323	4,430
North West	16,525	18,046	10,229	9,093	15,069	18,991	9,005	(7,433)	(2,977)	8,762
Scotland	6,054	4,013	4,798	6,642	4,736	4,622	4,675	587	723	(176)
South East	5,107	5,491	6,280	5,276	9,117	7,261	7,457	169	3,626	981
South West	6,126	6,113	6,088	6,471	7,425	7,357	7,499	345	1,312	1,269
Wales and Border Counties	6,175	6,656	7,899	6,617	8,023	9,647	13,592	443	1,367	1,749
West Midlands	4,489	4,532	4,681	5,245	6,992	7,117	7,225	755	2,460	2,435
Yorkshire	7,547	7,780	7,904	8,082	8,334	8,526	8,684	535	554	622
Property Central	3,915	4,891	5,209	3,156	3,677	3,768	4,376	(759)	(1,214)	(1,441)
Regeneration and Restoration Central	4,014	9,293	15,271	1,386	8,016	9,747	10,429	(2,628)	(1,277)	(5,524)
Utilities Central	12,892	9,446	9,621	13,943	120	240	240	1,051	(9,326)	(9,381)
Total Income	104,545	111,344	113,836	97,392	112,455	119,022	113,383	(7,153)	1,111	5,185
Operating Costs										
Payroll	45,696	48,007	49,047	44,559	47,945	49,599	50,986	1,137	63	(552)
Internal Time Recharges	(2,871)	(2,748)	(2,424)	(2,312)	(2,910)	(3,056)	(1,934)	(558)	162	632
Staff Related Costs	5,694	5,116	5,061	5,733	5,199	5,305	5,093	(39)	(83)	(244)
Materials and Contract	38,247	47,323	39,896	29,748	45,869	55,753	49,003	8,499	1,454	(15,857)
Plant and Machinery	3,808	3,981	4,075	4,096	4,861	5,055	5,433	(289)	(880)	(980)
Premises and Office Costs	8,534	8,422	7,863	9,125	9,071	9,105	8,758	(591)	(650)	(1,242)
Professional Fees	6,729	5,707	5,804	6,944	9,452	6,397	5,499	(215)	(3,744)	(594)
Marketing	1,131	1,086	1,102	1,176	1,157	1,036	1,066	(44)	(70)	66
Other Costs	3,582	3,734	10,937	5,098	1,970	2,102	2,093	(1,516)	1,764	8,835
	110,551	120,629	121,362	104,168	122,614	131,297	125,997	6,383	(1,985)	(9,936)
Depreciation	3,166	3,075	2,812	3,880	3,276	3,146	2,867	(713)	(201)	(334)
Total Routine Operating Costs	113,717	123,704	124,173	108,048	125,890	134,443	128,864	5,669	(2,186)	(10,270)
Internal Income (Operational Property)	(2,247)	(2,247)	(1,660)	(2,608)	-	-	-	362	(2,247)	(1,660)
	111,470	121,457	122,514	105,439	125,890	134,443	128,864	6,031	(4,433)	(11,930)
CBIT - Routine Operations										
Central Shires	(2,310)	(2,460)	(2,400)	(2,651)	(1,394)	(1,160)	(1,283)	(341)	1,066	1,240
East Midlands	(1,342)	(1,167)	(720)	(1,328)	(1,270)	(1,614)	(1,580)	14	(103)	(893)
London	6,749	7,020	6,992	7,253	7,508	7,452	7,277	505	489	460
North West	(3,286)	(3,280)	(3,604)	(3,718)	(3,329)	(3,682)	(3,921)	(432)	(49)	(78)
Scotland	(8,533)	(9,025)	(9,398)	(10,400)	(8,345)	(8,349)	(8,834)	(1,867)	680	1,049
South East	(2,410)	(2,459)	(1,682)	(2,185)	175	(1,398)	(1,244)	226	2,634	284
South West	(1,680)	(1,700)	(1,774)	(1,284)	(1,134)	(1,306)	(1,361)	396	566	469
Wales and Border Counties	(2,311)	(2,491)	(2,374)	(2,540)	(3,350)	(3,259)	(3,288)	(229)	(860)	(885)
West Midlands	(3,383)	(3,608)	(3,504)	(2,641)	(578)	(1,007)	(1,025)	743	3,030	2,497
Yorkshire	(1,188)	(1,411)	(1,308)	(844)	(1,452)	(1,380)	(1,601)	344	(41)	(72)
Property Central	1,208	2,390	2,802	215	912	1,366	2,478	(993)	(1,478)	(1,437)
Regeneration and Restoration Central	(755)	(782)	(760)	(1,317)	(1,297)	(1,327)	(1,339)	(563)	(515)	(567)
Utilities Central	12,317	8,862	9,052	13,394	120	240	240	1,077	(8,742)	(8,812)
Total CBIT - Routine Operations	(6,925)	(10,113)	(8,677)	(8,048)	(13,435)	(15,421)	(15,481)	(1,122)	(3,322)	(6,744)

A1.1 Financial Commentary

A1.1.1 Central Shires

The inclusion of the Stourport regeneration scheme increases income and expenditure projections by £1.3m and £0.5m in years 1 and 2 respectively. A small increased in profits is expected from the Hatton and Fradley visitor sites, primarily through catering, together with some growth in net property income.

The adverse contribution movement arises primarily from the allocation of a further £0.5m to the waterway unit to fund steady state activities and a reduction in contribution from online moorings.

A1.1.2 East Midlands

The principal change from the prior year plan is a reduction in regeneration activity on the Fossdyke & Witham Navigation, £1.3m and £0.7m in years 1 and 2 respectively, as well as on the Upper Trent, £0.5m pa. Also, an operational property premium previously planned for 2007/08 is now expected to be received in 2006/07.

A1.1.3 London

The increase in income is driven by the funded Bow Back Rivers scheme, which has been deferred from prior years. This encompasses a significant part of the Olympics development site and results in an impact of £1.6m and £4.5m in years 1 and 2 respectively. Additional property rents of £0.5m per annum also contribute to this variance. Third party income for other regeneration schemes reduces during 2007 due to the net effect of deferring works to Minet Tip, £2m.

Controllable costs have increased to reflect the change in restoration schemes and an additional internal allocation of funding for steady state activities.

A1.1.4 North West

The deferral of the Liverpool Link restoration project causes a movement of income and expenditure from 2006/07 into 2007/08, although this has little effect on net contribution. Additional maintenance agreement income of £0.7m for Liverpool Docks is expected to be receivable from 2007/08 and additional expenditure on steady state activities amounts to £0.6m per annum.

A1.1.5 Scotland

Income is lower than expected in 2006/07 and 2007/08 due to reduced turnover at the Falkirk Wheel, where performance to date has not been as strong as initial estimates anticipated. Property rents are £0.7m lower than previously planned for 2007/08, primarily due to further investment opportunities not yet being identified. The prior year plan assumed a capital investment of £12m in Scotland property assets.

Contribution is worse than planned in year 1 due to the reduced Falkirk projections. However, a reduction in the cost of sales at Falkirk, savings in payroll costs of £0.4m, materials costs of £0.4m and marketing costs of £0.2m result in a favourable movement in contribution for the following year. In addition, increases in operational expenditure have been curbed to compensate for the reduction in anticipated new income from property rents.

A1.1.6 South East

A £1.8m operational premium for a development at Pineham North was previously planned for 2007/08 and 2008/09, but will now all be accounted for in year 1 of the plan. This explains the entire income variance in 2006/07 and creates a £0.7m shortfall in 2007/08. However, additional property rents of £0.1m are now anticipated in year 2, reducing the total impact to £0.6m.

Additional works are programmed across the plan period, due to the reallocation of £0.9m from arrears into steady state activities. This additional expenditure is partially offset by payroll savings of up to £0.3m pa.

A1.1.7 South West

Increased income of £0.1m is anticipated from property rents and retail at the Caen Hill site, together with additional third party receipts of £0.2m for rechargeable works.

Despite the increased income, contribution is approximately £0.3m adverse in each year compared to the previous plan, due to the allocation of a further £0.3m for steady state activities, rechargeable works of £0.2m and the additional cost of goods sold, £40k.

A1.1.8 Wales & Border Counties

Income projections have increased as a result of accelerated restoration and regeneration activities, £0.9m in year 1 and £1.4m in year 2. Controllable costs also increase accordingly, with minimal impact from these projects on contribution.

The adverse results at contribution level are primarily due to increased expenditure on steady state activities, which is particularly significant in this waterway, given its high number of assets and length of navigation.

A1.1.9 West Midlands

Annual property rents have increased by £1.1m on prior year projections as a result of acquisitions during 2005/06. This is partially offset by a reduction in local regeneration activity and the associated third party funding.

Controllable costs have decreased despite the allocation of a further £0.6m for steady state activities, largely due to the downturn in regeneration projects.

A1.1.10 Yorkshire

The current plan shows an increase in income, due to further regeneration activity, £0.3m, and improved craft licence receipts and retail income, £0.1m.

This increase in income, together with some operational cost savings, virtually negate the net impact of a further £0.6m of expenditure for steady state activities.

A1.1.11 Property Central

Income projections are below those previously anticipated, due to a lower proportion of future property disposal proceeds being used to reinvest in further property assets. This decision has been made to facilitate further capital investment in Ventures and also the Leisure business area.

Contribution reflects this change in investment policy as well as some increased premises costs in year 1.

A1.1.12 Regeneration and Restoration Central

Third party income for major restoration schemes is £1.3m and £5.5m lower than expected in years 1 and 2 of the plan as a result of project delays and deferrals, together with the removal from the plan of speculative schemes. In particular, the Liverpool Canal Link contributes an income reduction of £4.5m in 2006/07, although this is offset by £1.9m of income deferred from prior years for the Bow Back Rivers scheme. Delays with the Cotswolds and Droitwich restoration schemes result in a reduction in income from third parties of £2m and £5.1m in years 1 and 2 of the plan. However, this has little impact on contribution as the expenditure profile has largely been changed accordingly. There remain only minor movements to reflect timing differences of unfunded costs.

A1.1.13 Utilities Central

This plan reflects an increase in contribution on the prior year plan, associated with the improved income streams from utilities agreements that were renegotiated in the prior year.

The accounting presentation for this unit currently reflects the historic allocation of income across the business. However, this is being changed to ensure that all the income and expenditure flows for all centrally managed agreements for utilities, water sales and surface water discharges are reflected in the new central unit. These will then be recharged to the Waterway Units in their respective proportions. Turnover for this unit will therefore increase to almost £17m pa, mirroring the newly created Utilities business area.

A2 Leisure

A2.1 Boats and boating

A2.1.1 Craft licences

Overall licence income is planned to increase by 5% in 2006/07 and 4% in the two following years. This is the result of price increases, increase in boater numbers and expected increased revenues resulting from the considerable resources which have been invested to tackle licence evasion. Online licence renewals have been available via the Waterscape website since October 2005. Current levels of renewals are estimated at approximately 10% of non direct debit renewals. The target is to achieve 20% by March 2007 and 40% by March 2008.

Price increases

The price increase in 2006/07 is 4.6% and planned at 2% in the two following years. The effect of the price increase is not immediately apparent in the annual income as customers only pay the new rate from the date of renewal.

Boater numbers

Target growth of 2% in 2006/07 3% thereafter

Licence evasion

All units are to target reduced licence evasion, down to the 3% target by March 2007 and maintain this level.

Licensing milestones	Date
• Boat growth of 2% achieved	March 2007
• Boat growth of 3% pa achieved	All future years
• Evasion reduced to 3%	March 2007
• Online renewals via Waterscape represent 20% of non-direct debit transactions	March 2007
• Online renewals via Waterscape represent 40% of non-direct debit transactions	March 2008

A2.1.2 Moorings

Moorings income is planned to increase by 9% in 2006/07, 6% in 2007/08 and 4% in 2008/08.

As with licence income, increase in boaters and reduction in evasion are responsible for some of the increased revenue. However price increases represent a large proportion of the 2006/07 increase. The average price increase in England for 2006/07 will be 6.7%. The price increases are justifiable in terms of the services provided and in comparison with the rest of the market. To a large extent it is also necessary to ensure that we are pricing at a fair rate and not so low that we are perceived as pricing competition out of the market.

In 2006/07 we will ensure that costs are allocated accurately, providing more relevant information for performance comparison and decision making. This will also mean that in the event of BW coming under further competition law pressure in respect of its moorings management, more robust proof can be offered to show that pricing decisions fairly reflect the costs associated with moorings as well as the demand in the market.

Moorings are currently in very short supply and most mooring operators are reporting long waiting lists and zero vacancies before even considering the growing popularity of boating. Due to issues with competition law and also the high level of investment needed in creating new marinas, coupled with BW's restrictions on debt, the New Marinas Unit has been set up to encourage investment by third parties in new marinas. The Inland Marinas Investment Guide has been launched in March 2006.

From 2006/07 and over the following ten years, a target of 10,000 new berths is projected. All of our marinas with over 50 berths will be operated by BWML.

A2.1.3 Angling

Angling Analysis	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Income										
Online Angling	352	368	368	393	420	418	422	41	52	49
Makins Fishery	208	215	220	149	213	220	220	(59)	(2)	-
Earleswood Reservoir	54	56	58	50	56	58	58	(4)	-	-
Blythe Fishery	60	62	65	57	65	69	69	(3)	3	4
Drayton Reservoir	43	45	45	56	52	52	52	13	8	8
Borwick Intensive Fishery	5	5	5	1	-	-	-	(3)	(5)	(5)
Other	91	107	115	102	102	85	85	11	(5)	(30)
Total Angling Income	813	857	876	808	908	902	906	(4)	51	26
CBIT										
Online Angling	162	141	136	161	141	172	178	(0)	0	36
Makins Fishery	(5)	(1)	(3)	(45)	17	28	33	(40)	18	31
Earleswood Reservoir	18	23	24	15	(6)	(3)	(4)	(3)	(28)	(28)
Blythe Fishery	(10)	(2)	1	20	8	(4)	(4)	30	10	(4)
Drayton Reservoir	38	24	23	28	24	23	22	(9)	0	(0)
Borwick Intensive Fishery	(2)	(1)	(1)	(133)	-	-	-	(132)	1	1
Other	44	77	86	29	54	12	16	(15)	(23)	(74)
Total Angling CBIT	245	261	266	76	238	228	241	(169)	(23)	(38)
EVC										
Online Angling	161	141	137	161	141	168	178	(0)	0	31
Makins Fishery	(16)	(12)	(14)	(99)	(37)	(24)	(19)	(83)	(25)	(10)
Earleswood Reservoir	18	22	24	14	(9)	(10)	(11)	(4)	(31)	(34)
Blythe Fishery	(10)	(2)	1	(6)	(15)	(26)	(26)	4	(13)	(27)
Drayton Reservoir	38	24	23	28	24	23	22	(9)	0	(0)
Borwick Intensive Fishery	(2)	(1)	(1)	(133)	-	-	-	(132)	1	1
Other	44	77	85	25	51	13	14	(19)	(26)	(72)
Total Angling EVC	234	250	254	(9)	156	143	157	(243)	(94)	(112)

Angling income traditionally remains fairly constant however following colder than average periods in 2005, revenue from offline managed fisheries has been below plan. 2006/07 is expected to recover and income is likely to remain constant thereafter. Costs should fall in 2006/07 as some one-off costs were incurred in 2005/06 and are expected to be stable. EVC is planned at around £150k for each of the three plan years.

Waterscape will shortly be adding a “Go Fishing” section and giving it more prominence by adding it as one of the tabs on the homepage. The EA have a large quantity of information which they should provide which will contribute to a more balanced information set.

With an estimated four million anglers, angling is the most popular participation-only sport in the UK and so whilst not currently a significant net contribution to the business they represent a large number of visits to the waterways. It has been agreed that more attention would be focussed in anglers’ direction and named, local, informed BW angling contacts have been made available to this passionate enthusiast sector.

A2.1.4 Visitor destinations

Our strategy is to develop numerous sites on our network as visitor destinations for both activity seekers and functional visitors. These sites will comprise two basic elements: an attraction which creates demand for the visit in the first place and facilities and services which meet the needs of the visitors once on site. We will seek to derive economic benefit from both elements wherever possible.

Attractions

Currently there are three attractions: The Falkirk Wheel, Anderton Boat Lift and Standedge, each with a visitor centre, some retail facilities and, in two cases, a catering offering (presently not available at Standedge).

Attractions Analysis	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Income										
Falkirk Wheel	2,055	2,105	2,151	1,614	1,763	1,816	1,863	(441)	(342)	(335)
Standedge	10	10	10	18	82	96	95	8	72	86
Anderton	295	312	332	361	350	350	351	67	38	18
Total Attractions Income	2,359	2,427	2,493	1,993	2,194	2,263	2,308	(367)	(232)	(231)
CBIT										
Falkirk Wheel	118	134	143	(92)	114	116	109	(210)	(21)	(27)
Standedge	(69)	(68)	(68)	(219)	(51)	(43)	(45)	(150)	17	25
Anderton	(20)	(7)	(35)	(8)	(20)	(24)	22	12	(13)	11
Total Attractions CBIT	29	59	39	(319)	43	49	86	(348)	(17)	10
EVC										
Falkirk Wheel	(86)	(69)	(61)	(251)	(46)	(43)	(51)	(165)	23	18
Standedge	(96)	(94)	(93)	(246)	(81)	(73)	(75)	(150)	13	20
Anderton	(45)	(28)	(52)	(31)	(39)	(39)	10	14	(11)	13
Total Attractions EVC	(227)	(191)	(206)	(529)	(166)	(155)	(116)	(302)	25	50

Performance in 2005/06 is expected to result in a negative EVC of £529k, however a profit is expected at the contribution before interest and tax level across the plan period with an improvement in EVC to (£116k) by 2008/09. This will be achieved through tight cost control, with a 7% cost reduction in 2006/07, followed by increases at or below inflation. Revenues are planned to increase by 10% in 2006/07 then in line with inflation thereafter. However, there is a high degree of uncertainty behind the revenue projections for attractions as these are so dependent on good weather, marketing and service provision, in terms of getting visitors to the site and converting them into paying customers, making this is a significant risk area for the leisure business

Retail

Retail income (excluding the attraction sites) is set to increase by 23% in 2006/07, with more modest increases of 7% in 2007/08 and 6% in 2008/09. The high increase in 2006/7 is largely due to improvements at Fradley Junction, increased exhibitor prices boosting income for the Crick boat show and the introduction of additional parking facilities at Foxton.

Retail Analysis	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Income										
Crick Boatshow	245	257	257	264	335	343	352	19	78	86
Hatton Locks Café	86	85	88	125	144	159	174	39	59	71
Caen Hill Tea Room	94	59	-	74	94	96	99	(20)	35	96
Fradley Junction	89	91	94	86	128	159	187	(3)	36	65
Startops Car Park and Retail	122	131	138	45	36	36	36	(77)	(95)	(101)
Other	108	120	123	175	209	222	225	67	89	99
Total Retail Income	744	743	700	770	946	1,016	1,073	26	202	316
CBIT										
Crick Boatshow	3	15	16	17	4	3	3	14	(12)	(12)
Hatton Locks Café	8	14	15	21	28	32	40	13	14	17
Caen Hill Tea Room	3	22	-	(18)	(1)	(1)	(2)	(22)	(22)	(1)
Fradley Junction	(3)	(3)	(3)	(11)	1	9	47	(8)	4	12
Startops Car Park and Retail	27	76	81	35	35	35	35	9	(41)	(46)
Other	(110)	(117)	(126)	(38)	(46)	(37)	(50)	71	72	90
Total Retail CBIT	(71)	7	(17)	6	21	42	74	77	14	59
EVC										
Crick Boatshow	3	15	16	17	4	3	3	14	(12)	(12)
Hatton Locks Café	7	13	14	21	27	31	39	14	14	17
Caen Hill Tea Room	3	22	-	(18)	(1)	(1)	(2)	(22)	(22)	(1)
Fradley Junction	(7)	(7)	(7)	(17)	(6)	5	43	(10)	1	12
Startops Car Park and Retail	19	69	74	35	35	35	35	16	(34)	(39)
Other	(110)	(117)	(126)	(41)	(50)	(41)	(55)	69	68	85
Total Retail EVC	(84)	(5)	(30)	(3)	9	31	64	81	14	62

A2.1.5 Current initiatives

A2.1.5.1 Integration with other BW ventures

In striving to achieve the doubling of visitor numbers to the waterways between 2002 and 2012, it is important to encourage more linkage with other BW departments and ventures such as using the waterside pub partnership, marinas, isis developments and other major property sites to attract visits to the waterways. In this way, BW can benefit twice by not only increasing the number of visits, but at the same time enhancing economic benefit in another part of the business.

A2.1.5.2 Sponsorship

Sponsorship income is planned from 2006/07 onwards, the objective being to secure indirect income from the high volume of footfall on and adjacent to BW property. Opportunities include indirect sponsorship such as advertising sites, ATM machines and soft drinks supply as well as direct sponsorships of more traditional type.

Early experience of the sponsorship sales process has demonstrated that indirect sponsorships are more readily achievable than direct. £200k additional income has already been secured for 2006/07. This is mostly from advertising with considerable potential for future uplift.

The sales process for pure sponsorships will be reviewed, and pursued afresh as and when good opportunities arise.

A2.1.5.3 Customer Service Transformation

Now out of its research stage, known as the Customer Insight Programme, this key project has been renamed the Customer Service Transformation (CST). This has been well received and it is now more readily understood to be a significant and practical programme of change designed to realise BW's 2012 vision.

CST work streams are focused on executing all that needs to be done between 2007 and 2009. This will be a period of considerable change and innovation throughout the business. It allows then a further three years for the full benefits to work through to the target date of 2012.

A programme to embed Moments of Truth in each of eleven business units is well advanced. In addition to its focus on culture change, the programme integrates with both customer service standards and the push to seven day working in all appropriate customer facing areas.

Henley Centre is commissioned to build a more thorough model of the future volume and value of customer visits. This will take account of regeneration programmes, current BW strategies, demographics and economic / lifestyle projections.

Criteria for a network of destinations defined by footfall are well advanced. A programme of training and empowerment in the critical area of customer communications is planned for the second half of 2006/07.

A2.1.5.4 Marketing Strategy

Passionate Enthusiast, Activity Seeker and Functional Customer segmentation has done much to clarify our view of the consumer base and volume. It has put in place the building blocks for future marketing strategy which is to be developed for consideration by the board September 2006.

A2.1.5.5 Research

The research programme will be incrementally improved over the period of this plan. The inland waterway visit survey will build up a picture of non customers and by adjusting sample sizes / recall periods, begin to secure results that are accurate at business unit as well as UK level.

We will build on improvements already made in communicating research results. These results link directly to key performance indicators and should be used to inform management decisions at all levels of the business.

Opportunities to generate income from BW's research programme are under investigation.

A2.1.5.6 Waterscape

The recent reorganisation of Waterscape.com will focus activity on providing BW's online marketing channel, and as such its vision, is to provide a comprehensive, accessible and intuitive website that is the first choice for information about the inland waterways.

Waterscape will roll out the content management functionality on the website for each waterway to update the website with news, events and attractions in their own area to encourage further visits to the waterways.

A3 Regeneration and Restoration

A3.1 Financial Projections

Income	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Third Party Contributions - Regeneration	4,946	8,170	7,587	5,068	7,697	6,117	4,503	122	(474)	(1,470)
Third Party Contributions - Restoration	17,491	23,112	23,131	5,746	21,171	30,160	25,933	(11,745)	(1,942)	7,030
Other Income	312	356	264	367	395	240	254	55	40	(25)
Total Income	22,749	31,638	30,981	11,182	29,263	36,517	30,690	(11,567)	(2,376)	5,535

CBIT	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Regeneration	(1,046)	(1,024)	(1,014)	(696)	(1,280)	(824)	(862)	350	(256)	189
Restoration	(719)	(646)	(598)	(1,296)	(1,524)	(1,566)	(1,774)	(576)	(878)	(968)
Total CBIT	(1,765)	(1,671)	(1,611)	(1,992)	(2,804)	(2,391)	(2,636)	(227)	(1,133)	(779)
Cost of Capital Charge	(133)	(104)	(133)	(131)	(131)	(131)	(131)	2	(27)	2
EVC	(1,898)	(1,775)	(1,744)	(2,122)	(2,934)	(2,521)	(2,767)	(224)	(1,160)	(777)

A3.2 Regeneration and Restoration is now a Business Area with a responsible Regeneration Director. Restoration is viewed as a sub-division of Regeneration. Major Restoration projects will mainly be delivered by specialist teams reporting directly to the Regeneration Director. On completion management of the restored canals will be transferred to Waterway Units. Smaller regeneration projects will continue to be managed by Waterway Units with overall strategy and policy being driven by the Regeneration Director.

A3.3 Major Restoration Projects

A3.3.1 Financial Projections

Income by Key Projects	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Liverpool Canal Link	6,422	7,703	2,994	454	3,252	8,899	1,647	(5,968)	(4,451)	5,905
Manchester, Bolton and Bury Canal	1,751	2,519	300	1,024	3,591	434	130	(728)	1,073	134
Bow Back Rivers	3,116	3,039	3,070	259	4,960	7,578	7,881	(2,856)	1,921	4,508
Port Dundas	2,035	-	-	2,549	200	-	-	514	200	-
Montgomery Canal	122	501	1,630	167	1,093	2,085	6,085	45	592	455
Cotswold Canal	947	5,271	5,271	682	4,409	4,320	4,320	(265)	(862)	(951)
Droitwich Barge and Junction Canal	2,793	3,700	1,495	367	3,260	5,195	1,355	(2,426)	(440)	3,700
Other	618	735	8,634	586	801	1,888	4,769	(31)	66	(6,746)
Total Income	17,803	23,468	23,395	6,088	21,566	30,400	26,187	(11,716)	(1,902)	7,005

Contribution by Key Projects	Last Year's Plan			This Year's Plan				Variances		
	2005/06	2006/07	2007/08	2005/06	2006/07	2007/08	2008/09	2005/06	2006/07	2007/08
Liverpool Canal Link	(108)	(106)	(54)	(108)	(102)	0	0	0	4	54
Manchester, Bolton and Bury Canal	(21)	(53)	(50)	(8)	(72)	(101)	(101)	13	(18)	(51)
Bow Back Rivers	(187)	(86)	(92)	(289)	(304)	(312)	(324)	(101)	(218)	(220)
Port Dundas	(40)	-	-	(60)	-	-	-	(20)	-	-
Montgomery Canal	(70)	(50)	(50)	(70)	(132)	(179)	(188)	(0)	(82)	(129)
Cotswold Canal	-	-	-	(89)	3	-	-	(89)	3	-
Droitwich Barge and Junction Canal	-	-	-	(124)	(0)	-	-	(124)	(0)	-
Other	(245)	(302)	(303)	(463)	(868)	(925)	(1,112)	(218)	(567)	(622)
Total Contribution Before Depreciation	(671)	(598)	(549)	(1,211)	(1,475)	(1,517)	(1,725)	(540)	(877)	(968)
Depreciation	(48)	(48)	(48)	(85)	(49)	(49)	(49)	(36)	(0)	(0)
Total Contribution After Depreciation	(719)	(646)	(598)	(1,296)	(1,524)	(1,566)	(1,774)	(576)	(878)	(968)
Cost of Capital Charge	-	-	-	-	-	-	-	-	-	-
EVC	(719)	(646)	(598)	(1,296)	(1,524)	(1,566)	(1,774)	(576)	(878)	(968)

A3.3.2 Liverpool Canal Link

This project will connect the Leeds and Liverpool Canal with the South Docks in Liverpool and will act as a catalyst for the wider regeneration of the Leeds and Liverpool canal through Sefton. Liverpool will be European Capital of Culture in 2008 and this project will enhance BW's profile and give us the opportunity for a significant increase in visitor numbers in the centre of the city

A3.3.3 Manchester, Bolton & Bury

Construction of Phase 1 (Middlewood section) of the MB&B canal will expand the network into the centre of Salford and the value of BW's land holdings in the Phase 2 section will increase as further restoration becomes more likely

A3.3.4 Cotswold Canals

The recent announcement of major funding for this project from the Heritage Lottery Fund and the South West Regional Development Agency means that this project can now proceed with completion expected at the end of 2008/9. A project team is being formed to manage this project and also the Droitwich Canals project.

A3.3.5 Droitwich Canals

The restoration of the Droitwich Barge and Junction Canals will take place over the same time period as the Cotswold Canals and be delivered largely by the same team. Funding is from the HLF and the Regional Development Agency with major contributions also coming from Local Authorities.

A3.3.6 Bow Back Rivers

See section 4.2.5

A3.4 Regeneration Projects

A3.4.1 A number of smaller regeneration projects are planned by Waterway Units, generating income of £7.7m, £6.1m and £4.5m across the plan period and requiring circa £1m of BW funding. Of these the major one is the regenration of the Stourport Basins within the Central Shires Waterway Unit, with a projected turnover of £2.5m over years 1 and 2.

A4 Core Waterway

A4.1 Government Contract

During the 1st year of this plan the final elements of the contract with Government will be completed ready for adoption from April 2007. The contract will set out the Service Levels that BW will deliver in exchange for a determined level of funding and will be linked to measurable and auditable waterway standards. Further refinement of steady state costs of activities will be required to inform the financial data in the 10 year plan and the Service Level agreement and this will be achieved by monitoring current costs of activities and projects. During the year, activities in two pilot waterways will be monitored to ensure robust quality information is available from systems to inform the detail of the agreement including costs, output and type of activity.

A4.2 Waterway Standards

Revised waterway standards have been agreed with the two pilot waterways, during the 1st quarter of 2006/7 baseline data will be gathered to determine the level of compliance with the Minimum Safety Standards and the Minimum Acceptable Standard (Contract Standard) for each asset and length of waterway. The output of this data will inform how compliant we are with the revised standards and where funds need to be addressed in the future to meet the required standards. All Waterways should have baseline data by December 2007 and General Works Programmes will be amended to ensure that works are targeted in delivering the standards over contract period.

A4.3 Asset Management Group

A newly formed Asset Management Group will have an agenda throughout the plan period to

- develop and monitor programmes to secure the infrastructure to underpin BW's vision of a safe, reliable and sustainable network to enable the business to expand.
- advise Executive on budget levels for Arrears, Non Arrears, Dredging and Lock gate replacement programmes.
- advise Executive from data gathered on Waterway Standards, Programmes for direction of General Works.
- drive improved project management approval process and project change management.

A4.4 Activitiy analysis

The table below summarises some of the planned activities and costs attributed in 2006/07. These activities will be monitored throughout the plan period to ensure that the planned outputs are being achieved for the money being spent. There will be an increasing focus on customer service improvements, driven by the 'moments of truth' identified through the Customer Service Transformation

Efficiencies will be sought in the way that the General Works Programme is carried out, through benchmarking and implementing best practice approaches. Ensuring that value for money principles are adopted and that outputs are monitored against cost inputs will be crucial to driving through savings in throughout the plan period and beyond.

Activity	Cost £m
Routine maintenance of assets	3.6
Vegetation Management (Tree & hedge mgt & Grass cutting)	2.9
Lock Gate Replacement	2.4
Refuse collection and litter management	1.2
Inspections, major renovation and intermediate repair of assets	0.8
Hard & Soft towpath maintenance	0.6
Spot dredging	0.5
Lock Gate replace and customer service maintenance	0.5
Water control and cost of maintaining SCADA	0.5
Visitor mooring maintenance	0.4
Operational buildings and estates costs	0.3
New customer service facilities	0.3
Elsan & toilet maintenance	0.2
Swing Bridge maintenance	0.2

A4.5 Lock gate replacements

The three year programme for lock gate replacement is shown below and is based on 4% per annum replacement over the period of the plan. The workshops have records of all lock gates by waterway and by age, which will be used to determine the replacement programme over the next few years. Condition surveys of lock gates will be carried out during the annual length inspection process (AIP 2005) and will also inform the replacement criteria.

Waterway	2006/07		2007/08		2008/09	
	Nr of Leaves	Costs £'000	Nr of Leaves	Costs £'000	Nr of Leaves	Costs £'000
London	14	183	12	159	6	58
South East	22	253	18	186	13	156
South West	24	297	24	306	30	393
West Midlands	21	162	7	48	36	285
Central Shires	21	155	27	211	34	252
Wales & Border Counties	29	265	23	189	27	239
East Midlands	22	254	14	151	10	107
North West	31	330	29	323	32	323
Yorkshire	19	193	31	351	23	260
Scotland	0	0	8	125	2	30
Central Shires Restoration	16	135	22	176	0	0
North West Restoration	12	159	18	230	0	0
Yorkshire Arrears	0	0	2	36	0	0
Total	229	2,386	233	2,491	211	2,102

A4.6 Heritage

We are guardians of a unique national asset with particular heritage value. Effective heritage management is core to our business and is central to our drive towards greater self-regulation. We are uniquely placed to achieve the appropriate balance between heritage and commercial activity in a modern waterway network. We are committed to developing our internal expertise and knowledge to achieve this.

Our general managers have a common target of showing a demonstrable commitment to heritage across their business unit. This means that heritage awareness must permeate each area of BW business and should be reflected in each of our corporate values.

All waterways must be able to demonstrate expert provision for dealing with heritage issues. Our philosophy is that we regard all our heritage assets, not just those that enjoy statutory protection, as being of value to our customers and the nation.

Heritage Milestones	Date
• E&H teams & waterway supervisors to deliver 3 heritage awareness tool box talks to all bank staff, to include subjects such as a) *What is our heritage?* ; b) *Compliance* and c) *Repair principles*.	Q2 2006/07
• Heritage built into career pathways & competencies and related training budgeted for in waterway business plans	Q1 2006/07
• Heritage Partnership Agreement adopted & operating for pilot site	Q4 2008/09
• Heritage competency training delivered via E&H teams	2007/08 onwards
• All existing Buildings at Risk removed from English Heritage Register	Q4 2007/08
• All existing (Dec 2004) Buildings at Risk removed from local authority registers	Q4 2008/09
• 100% compliance with statutory consents and conditions	Throughout
• All waterways to integrate heritage action plans with business plans	Throughout
• Quarterly heritage performance audit carried out for all waterways	Throughout

A5 Major Works

A5.1 Arrears

The plan for 2006/07 is given in the following table, in terms of the types of assets to be improved and the cost of works to be performed. The table also shows the number of structures currently classified as grades D or E, ie with arrears works outstanding.

NB: Some assets will not change grade as a result of works carried out in 2006/07 as the project may span more than one year. For example some year 1 costs will be attributed to only the concept & design element of the project to ensure the optimum project delivery solution.

Type of structure	£m	Number of structures graded D/E	Comments
Aqueduct	0.9	18	
Accommodation Bridge	1.7	17	
Public Road Bridge	0.3	6	
Other Bridge	0.4	9	
Culvert	2.8	17	
Major Cutting	0.4	5	
Major Embankment	9.5	34	2 embankments at grade C included, due to increased badger activity since the last principal inspection at one location and mining movements at the other site.
Lock	3.1	26	2 locks included at grade B, one which has deteriorated since the last inspection and another requiring automation.
Reservoir	2.0	10	3 grade B reservoirs and 1 grade C reservoir included due to works required by Panel Engineers safety recommendations.
Sluice	0.1	3	
Stop/Safety/Flood Gates	0.9	6	1 of the sites is at grade C, but works have been brought forward to secure third party funding
Tunnel	0.1	1	This structure is currently at grade C, but one element of the tunnel is now failing and requires urgent action.
Dock	0.2	1	
Weir/Pumping station	0.2	4	
Design only projects	0.1		
Culvert inspections	0.7		
Bank protection/failed walls	1.5		
Total	**24.9**	**157**	

Similar levels of arrears projects are planned over 2007/08 and 2008/09, with the full project programme being reviewed and authorised by the Asset Management Board at their March meeting.

A5.2 Dredging

£18m will be invested in dredging the waterways over the next 3 years, with works covering all Waterway Units. The dredging projects planned for 2006/07 are shown in the following table.

Waterway Unit	£m	Number of km to be dredged	Comments
Yorkshire	0.4		SSYN Waddington
East Midlands	0.6		Chesterfield & Erewash
North West	0.8		Wigan top lock to Adlington Marina, Ribble Link Final Year, Peak Forest
Wales & Border Counties	0.6		Llangollen & Monmouth & Brecon
Central Shires	0.7		Trent & Mersey
West Midlands	0.5		Staffs & Worcs
South West	0.7		Kennet & Avon & River Severn
South East	0.6		Grand Union North & Market Harborough Arm
London	0.7		River Stort – Feakes Lock to Tednambury Lock
Preparation for 2007/08	0.2		Investigation and pre-planning for 2007/08
Resurvey costs	0.2		Cost of surveying dredging profile
Total	**6.0**		

The planned length of dredging to be achieved is often difficult to assess accurately as the project budget incorporates not only the cost of the dredging itself, but also the disposal of the dredged material. Often, the method of disposal cannot be confirmed until spoil samples have been taken and could involve relatively low-cost disposal on a local farmer's field, transportation to a waste site or, where contaminates are present, transportation to a hazardous waste site. Clearly transportation of waste to a different site significantly increases the unit cost of the dredging, which may result in a reduction in the length of navigation to be dredged.

A6 Capital

A6.1 Commercial capital strategy

Our three year commercial capital disposal and investment programme is set out below:

	Actual 2004/05	Lat Fcast 2005/06	Plan 2006/07	Plan 2007/08	Plan 2008/09
Disposals					
Investment	31	27	12	12	7
Development	14	35	38	25	25
Wood Wharf land sale					
Willow Grange sale	0	0	6	6	0
Contingency		(3)	(5)	0	0
Joint venture - equity repaid		7	7	0	9
	45	66	58	43	41
Investments					
Investment	25	17	6	6	6
Development	1	1	15	9	9
Joint venture - equity invested	7	28	31	24	9
Directly managed - Cust Insight	4	2	3	4	5
West Midlands/ Head office	0	0	7	0	0
Property investment for leisure occupancy - NMU	1	2	1	2	3
	38	50	63	45	32
Other					
Tax payment	(2)	(12)	(13)	(6)	(8)
Transfer from No1 account	0		3	0	0
Easynet share sale	0	4	0	0	0
Pension repayment/ payment	(6)	6	(6)	6	0
	(8)	(2)	(16)	0	(8)
Cash b/fwd	15	13	27	6	4
Cash c/fwd	14	27	6	4	5

Property disposal proceeds are expected to be £45m, £37m and £32m for each of the years 2006/07, 2007/08 and 2008/09 respectively. A further £12m is expected to be realised from the sale of Willow Grange in Watford.

The capital allocation takes account of the following items:

- Amount payable for corporation tax on capital gains on disposal based on the likely tax computations for the three years of the plan. In calculating the tax we have assumed that we will continue our tax mitigation by making a pension prepayment in 2006/07 which has the effect of utilising brought forward tax losses
- An allocation of £3m, £4m and £5m for small leisure businesses under the Customer Service Transformation
- An allocation of £5m to enable the construction of the new head office at Apsley and £2m to enable the conversion of the Roundhouse for occupation by West Midlands business unit
- Capital requirements from our ventures. The table in section 3.2.4 outlines the cash requirements by venture. In 2006/07 and 2007/08 the ventures will require substantial cash before capital repayments are made in 2008/09. From 2010/11 it is likely that Wood Wharf will require substantial equity.

The remaining cash is assumed to be allocated to property acquisitions, both investment and development. Clearly there is more cash being extracted from the property portfolio than is being reinvested and therefore our property asset base is planned to remain static at around £450m. Income growth will increasingly be seen from leisure businesses and ventures.

As the capital base in property remains static it is apparent that there will be much less cash available over the three year plan to reinvest into new properties or development sites. Over the previous three years, approximately £90m has been invested into property assets compared to £50m planned over the next three years.

In order to progress our development and regeneration aspirations, the strategy will be to:

- Source new development sites from our existing investment estate where assets become life expired or redevelopment potential improves
- Pursue strategic alliances with major waterside land owners who share our regeneration aspirations
- Work with the local Councils, RDAs and EP who appear to be keen to provide capital funds to BW so that we can acquire property in the open market
- Focus our limited funds to major regeneration schemes which deliver our objectives

There are two major risks to this capital strategy:

- Successful resolution of the tax base cost of the Canary Wharf density cap income. If this proves unsuccessful then there will be additional tax to pay of £8m.
- Successful outcome to negotiations with Defra, resulting in BW not having to repay the POLP loan which was taken out to help fund the Wood Wharf land acquisition. If this proves unsuccessful then the loan of £12.8m will have to be repaid, probably during 2007/08.

A6.2 Planned Commercial Investments

The table below shows how much is planned to be invested through our various related programmes, ie our own capital, our partners' capital in joint ventures, bank debt into our ventures, our subsidiaries' investment, and our new marina unit initiative.

In total, over the 3 year plan, it is assumed that some £352m will be invested through these routes into our waterways and watersides, a similar sum to the revenue funds we plan to invest ourselves through the core waterway expenditure programme. Some £232m is already allocated, mainly through the site specific property joint ventures, while some £120m of investments are yet to be identified, mainly relating to the activities of NMU, pub partnership, our own capital investment programme, and BWML. One of the key challenges will be to ensure that these unallocated funds are managed as effectively as possible with continuous interaction between local waterway plans and corporate capital programmes.

				BW investment Over 3 years £m	JV Partner Investment over 3 years	Third Parties	Bank debt	Total cash investment over 3 years £m
Property Acquisitions								
Investment properties		*Note 1*	£9m pa	27				27
Development Properties		*Note 2*	£10m pa	30				30
Local leisure/ property improvements								
Directly managed enterprises		*Note 3*	£4mpa	12				12
BW Marinas Limited								
Equity investments		*Note 4*	£1m pa	3				3
Joint Ventures								
Edinburgh Quay	Scotland			3	3		14	20
Waterside Pub Partnership	National	*Note 5*		5	5		20	30
Wood Wharf	London			14	14		14	42
Gloucester Quays	South West			10	10		18	38
isis Manchester	North West			3	3		15	21
isis Brentford	London			4	4		13	21
isis Glasgow	Scotland			3	3		10	16
isis Leeds Canal Basin	Yorkshire			4	4		11	19
isis Icknield Port Loop	West Midlands			4	4		5	13
isis Tottenham Hale	London			4	4		13	21
Isis Northwich	Wales and Border Counties			4	4		13	21
New marinas unit								
New marinas developed			3 marinas at £2m each pa			18		18
TOTAL								352

A6.3 Corporation Tax

We continue to review the structure of our property transactions to ensure that we mitigate as far as possible the corporation tax payable within the constraints of the law and the commercial outputs of the deal. In addition we have a review process in place to ensure that the post tax receipts from the sale of investment properties can be reinvested into new properties or projects and earn a higher return than from the property sold. Clearly other factors such as cost of management, delivering the BW vision and future plans for that asset will be taken into consideration along with the financial aspects.

Our main corporation tax mitigation strategy is summarised in the table below:

Corporation Tax Mitigation

Tax Allowances

- Rollover relief
- Pension prepayments (use b/fwd losses)
- Industrial Building Allowances

Joint Venture Structures

- Tax transparent vehicles LP/LLP
  - Isis, Wood Wharf, Pubs, Gloucester Quay
- Consortium relief

Deal Structure

- Development leases
  - Wood Wharf
  - Clarence Dock
- Commuted maintenance payments
  - Tower Wharf, Diglis

Utilisation of losses

- Waterscape, Watergrid
- Trading losses

A6.4 Operational Capital Investment

Investment of £750k per annum is assumed in new and replacement SCADA equipment across the waterways. This will help to improve BW's ability to meet regulatory water management requirements a well as assisting day to day operations.

It is still envisaged that the replacement of life-expired floating plant will be funded through the existing bank leasing agreements. However, this is being reviewed to ensure that we obtain the best value for money from these new assets.

Remaining capital purchases will be de minimis, with most IT equipment being leased through the outsourcing contract with Fujitsu.