

Private & Confidential

**BRITISH WATERWAYS
4 YEAR CORPORATE PLAN
2007/08 – 2010/11**

April 2007

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1 STRATEGIC OVERVIEW

We have prepared this 4 year plan so that it covers the 3 year Comprehensive Spending Review (CSR) period of 2008/09 to 2010/11.

As at the time of preparing this plan, agreement has not been reached with Defra for BW's grant allocation. However, it has been assumed that the grant for 2007/08 will be the same as for 2006/07, £55.4m, with reductions at RPI-5% pa in each year thereafter. By contrast, this plan assumes grant from the Scottish Executive will remain at current levels.

This level of grant, for year one of the plan, is some £7m below the previously assumed base line and, over the 5 years to 2011, will be £27.9m down in total. Whilst commercial income is assumed to be increasing at greater than the rate of inflation throughout the plan, BW will remain substantially dependent on grant income to balance its income and expenditure. Inflationary pressures on operating costs, particularly on construction expenditure, generate the need for additional funding just to maintain asset and waterway standards at the existing levels.

This plan seeks to rise to the challenge by significantly improving earned income, with ambitious assumptions for commercial income growth, particularly on boat licences, where an RPI+30% increase has been assumed over the four year period. Other demanding assumptions have been made for growth in canal wayleave income and mooring price increases. Possibly the greatest area of risk in this plan is in the profits assumed from joint ventures, which total £42m over the four years. This is the largest contributor and, in the context of increasing financial pressures, its success will be critical to the delivery of the outputs assumed in this plan.

Other actions that we are taking as a result of the tighter financial constraints are a lower level of canal restoration and narrower focus on core activities. This will mean a reduction in the education, social inclusion and regeneration outputs, both in rural and inter city areas. BW has achieved great success in recent years in waterway based regeneration as recognised by the comments made by the Prime Minister recently:

"It is correct that in the past few years, there has been a very significant rise in people's use of our canals and waterways. The British Waterways Board has done a superb job, and as a result, the situation has been turned around from the position a decade ago."

"There are exciting plans for redevelopment of the Gloucester Quay that will create 1,000 new homes and 800 new jobs."

"These changes are wonderful. But empty places are no better for being new. A city needs citizens. It is really encouraging that Birmingham, Leeds, Sheffield, Manchester, Liverpool and Newcastle have all moved up steadily from their high population losses of the early 1990s. We have seen people come back to the centre of the city, often on the waterfront: Albert Dock in Liverpool, Salford Quays, the Quayside in Newcastle and canal-side schemes in Leeds and Birmingham."

In this plan no new canal restoration projects are assumed and as a result the very significant regeneration benefits, both social and economic, created by canal restoration will not be delivered in line with the BW Vision.

BW currently plays its part in the Governments priority agenda to address climate change and encourage sustainable living. This is achieved in many ways, for example by providing alternative ways to commute, encouraging eco-friendly leisure pursuits and holidays at home, sustainable housing by the waterfront, healthy local recreation, improved water quality and enhanced bio-diversity. Climate change offers new economic threats but also real opportunities. New resources will need to be found during the course of this plan to seize the benefit of these opportunities for our wider future.

Expenditure on BW's Principal Assets (eg bridges, aqueducts, lock structures, reservoirs and embankments) will also remain below the required level to make progress towards a steady state condition standard. Whilst some gradual progress is being made on assets in conditions D&E, the general standard of all assets is declining due to insufficient expenditure on routine maintenance.

Expenditure on waterways has been assumed at 85% of the steady state requirement throughout all years of this plan. This means that Minimum Acceptable Standards cannot be achieved throughout the network. As a consequence, expenditure is targeted at destinations, through the Customer Service Transformation programme, and in ensuring that Minimum Safety Standards are achieved throughout the network. Standards at areas other than destinations will therefore fail to achieve the desired grade.

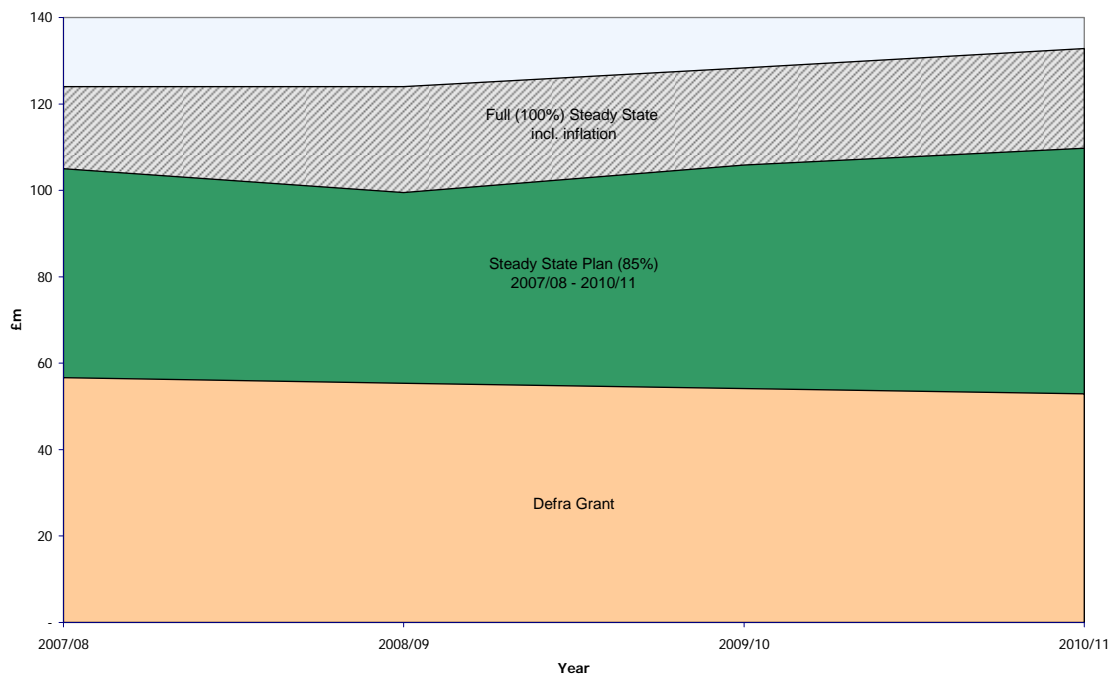
Continuing efficiency savings have been assumed throughout the plan in addition to the major reorganisation and redundancy programme implemented during 2006 and 2007.

Notwithstanding all these factors, the two main drivers to this plan are BW's determination to:

- i) improve the safety, reliability and attractiveness of the network
- ii) grow the number of visits to our waterways.

The remaining sections of this plan explain how BW proposes to deliver against its Vision under reduced funding circumstances. As a measure of the level of underfunding, the graph below shows the level of grant funding required to deliver Minimum Acceptable Standards in line with the Steady State assumptions. Whilst BW strives to be largely self sufficient, and is increasing commercial income and cost efficiency, it cannot deliver the BW Vision within the planned timescale if Government funding is reduced in the manner proposed in CSR07.

Steady State Gap Analysis



2 OUR VISION

The BW vision is “Our ambition is that by 2012 we will have created an expanded, vibrant, largely self sufficient waterway network used by twice as many people as in 2002. It will be regarded as one of the nation’s most important and valued national assets. Visitors will be delighted by the quality of the experience and as a consequence many will become active participants.”

2.1 Relating the Plan to the Vision

The key elements of the Vision can be directly related to the initiatives and priorities in the Business Plan, but all depend on the ability to safeguard the condition of the basic waterway assets:

Vibrant	increasing visits and boat numbers
Expanded	encouraging support of restoration schemes
Largely self sufficient	grow commercial income and achieve greater efficiency
Twice as many people	create destinations, waterside development, safe, accessibility
Valued national asset	environment, heritage, marketing, stakeholders
Visitors will be delighted	customer service transformation, market research, standards

2.2 Business priorities and measuring progress towards our Vision

For this Business Plan the specific priorities and measurements of progress towards realising the vision are listed and described below.

- To grow income and profit with particular emphasis on the property and ventures business areas
- To deliver greater efficiency and cost reductions across all areas of the business
- To minimise the impact of reduced expenditure on our assets by focusing on the priorities, while recognising a general decline in the historic assets
- To improve customer satisfaction and visitor numbers
- To deliver the funded restoration schemes in line with budget.

2.2.1 To grow earned income and profit with particular emphasis on the property and ventures business areas

Continued segmentation and management focus of the property business, combined with aggressive target setting and clearer accountability, will drive property CBIT from £27.3m in 2006/07 to £30.3m by 2010/11 (+11% or CAGR 2.6% pa). This contribution growth is projected despite a net outflow of asset value from the property estate of c £40m into ventures over the plan period.

No new ventures are proposed in this plan and existing ventures will generate a total of £41.9m over the 4 years of the plan. Most of this contribution comes from isis £26.2m, City Road Basin £5.5m, Edinburgh Quay £7.3m and Gloucester Quays £10.8m. Over the

4 year period of the plan, Wood Wharf makes a negative contribution of £13m, being BW's share of the executive team overhead costs, the interest cost of debt and other non-capitalised work-up costs within the JV.

Leisure CBIT increases from £15.2m in 2006/07 to £23m in 2010/11 (+52% or CAGR 11% pa) mainly through the planned inflation +10% per annum rise in licence fees during the first 3 years. Mooring prices are also planned to increase by 6.3% per annum.

Utilities CBIT gains from £19.2m in 2006/07 to £20.3m in 2010/11 (CAGR of 1.4% pa) mainly through a review of wayleave agreements and rent reviews on the national contracts.

BWML contribution rises from £0.4m in 2006/07 to £1.6m by 2010/11, yielding a ROCE of 12% pa by 2010/11.

Overall commercial contribution rises from £66.4m in 2006/07 to £89.6m in 2010/11 by 2010/11, an overall increase of 35% and a CAGR of 8% pa.

2.2.2 To deliver greater efficiency and cost reductions across all areas of the business.

The restructuring of the Waterway business units and Head Office in 2006/07 will deliver annual payroll savings of £4.5m and also reduce overheads by, for example, cutting office space requirements.

Other major initiatives within the plan period are implementing the new functional team structures for waterway staff, the sale and relocation of Head Office, facilitating savings through increasing the number of national suppliers and e-procurement functions, and yielding greater efficiency by centralising more administration and data activities in shared service functions.

Waterway Unit management costs end the plan period at the same level as in 2007/08 thereby delivering an underlying real reduction. There is a step reduction of £2.3m in payroll costs (42 posts) for Corporate headquarters, resulting from the 2006/07 Zero Based Reviews. Further payroll efficiency savings of 1.5% per annum are targeted thereafter, with total costs rising by an average of 1.3% pa thereafter. (Note that these costs include business rates from 2009/10 and the pension deficit payments).

2.2.3 To improve the condition of the network infrastructure and standards of maintenance and presentation.

Our approach to network and asset management is being changed, with a whole new way of working being introduced during year 1 of the Plan.

We have developed a new set of Customer Service Standards for our waterways, encompassing both technical and behavioural standards, which will be in place by June 2007. These are the Minimum Acceptable Standards, which would be achievable with 100% "steady state" funding. The steady state cost estimates have been introduced across the business from April 2007. We have also reorganised the delivery side of the business, with new functional teams to be in place from April 2007.

We know the overall condition of the network is currently below steady state and, at the current level of funding, we will not reach steady state over the period of this plan, indeed the overall condition is likely to deteriorate. This plan focuses on spending against the priority Principal Assets to protect the system in the short term. There will be an improvement in the Principal Assets classed D and E, while those not at immediate risk in classes A, B and C will decline.

Safety has been a real priority and BW has improved standards significantly to compare favourably with industry standards on employee and asset safety. Following a rigorous review, including feedback from customers, we have established a new set of Minimum Safety Standards for customer safety, as a subset of the Customer Service Standards. Our current position has been assessed with the General Managers of the Business Units. We believe that, at March 2007, we are in the region of 70% to 80% compliant with this new safety standard. We are determined to clarify this position by June 2007 to enable us to meet fully the new Minimum Safety Standard across the network by March 2008.

After safety, our key focus is on designated customer destinations. We aim to achieve 90% of our target standards at destinations, also by March 2008. This will drive up the quality of our customers' experience at our key sites.

We believe that it will take until March 2009 to properly establish our comprehensive baseline performance across the whole network against the full set of Customer Service Standards. Thereafter, we aim to improve year on year against this baseline by at least 5%, subject to funding availability.

Core Waterway expenditure rises from £70.2m in 2006/07 to £73m in 2007/08, an increase of 4% against the background of decreasing Defra grant aid. The level of expenditure in 2007/08 is equivalent to 85% of the theoretical steady state costs for each waterway. This has been possible due to increased income and efficiencies elsewhere and also a small reduction in spend non major works. Core waterway expenditure then rises to £77.5m in 2010/11, an increase of 6% or CAGR 2%, marginally below the rate of inflation. This will ensure we meet our Minimum Safety Standards over the plan period but not the customer service element of our Minimum Acceptable Standards in all locations. By December 2007, we aim to develop a scoring methodology (stewardship score) to monitor the overall condition of the waterway network for the purpose of measuring output achievements.

We have good knowledge of the condition of our 11,000 Principal Assets and a growing knowledge of the condition of our 15,000 Non-Principal Assets. Whilst there will be an improvement in the D&E classified assets, due to the planned underspend on Principal Assets compared with the Steady State budget the overall condition profile of our Principal Assets will gradually deteriorate over the life of the plan.

For the purpose of determining which assets are the highest priority for repair and maintenance, we score Principal Assets using the Business Benefit Priority Index and we score Non-Principal Assets using the Business Criticality Score. This subject is under continuous development and we aim to devise a new scoring system by the end of 2007 that will allow all major works to be consistently ranked regardless of type.

Major works expenditure rises from £27.4m in 2007/08 to £33.8m in 2010/11, a CAGR of 7.2%. This above inflation rise will only be possible if the planned increased contribution from our commercial activities is achieved. In total, £128.5m is planned to be spent over the 4 year period of which 61% relates to principal asset D & E arrears, 18% on mainline dredging and 21% on Non-Principal Assets.

2.2.4 To improve customer satisfaction and visit numbers.

The Plan fully funds our Marketing Strategy that:

- Delivers our Customer Service Transformation at a cost of £350k per annum. This will significantly improve our customer offer and our ability to gain better value from our relationships by interacting more effectively with our customers and partners.
- Will identify 100 destinations for priority investment and maintenance

- Spends circa £1.3m per annum on marketing of our waterways
- Undertakes a comprehensive annual programme of market research
- Improves B to B client account management
- Maintains the pace of waterside regeneration through property activity, strategic planning intervention and relationship building with key private and public partners.

2.2.5 Deliver the funded restoration schemes to time and budget.

The detailed restoration and external funding plans are at Appendix 10. It is anticipated that the Liverpool Link, Droitwich, Manchester Bolton & Bury and Prescott Lock projects will all be completed with a total net contribution by BW of £4.2m after netting off the £1m premium received from the ODA in 2006/07.

The plan provides for a £3m BW contribution to the Cotswolds Canal, which we already know is insufficient to enable this project to proceed. Very active negotiations and discussions are being held at the date of this Plan to explore all available options for the financing of the project within the bounds of an acceptable degree of risk and net contribution cost to BW.

3 EXECUTIVE SUMMARY OF BUSINESS PLAN

3.1 Summary of circumstances and assumptions

This plan has been put together in the light of the recent announcement from Defra that BW's grant will be substantially reduced year on year. A reduction in Defra grant of RPI-5% is assumed across the plan period. Consequently the approach to business planning throughout the organisation was changed, with all assumptions from prior year plans being reworked.

A contingency of at least £3m is included in each year to provide for unforeseen events. However, the availability of these funds is clearly subject to our planned performance targets being met in each area of the business.

The focus of the plan is on delivering our core business outputs. Our key objectives are to maximise efficiency and grow our income streams, whilst ensuring minimum safety standards are met and a marked improvement in customer service delivered.

Minimum Acceptable Standards are being finalised, comprising technical and customer service measures, and will be applied across all units to ensure consistency of delivery. The standards will also provide a mechanism for internal benchmarking, which will lead to ongoing efficiency improvements.

Funds have been set aside for the Customer Service Transformation as customer satisfaction is at the heart of our vision and core values. This will equip employees with the necessary skills to communicate effectively with customers as well as providing physical improvements such as a single customer contact centre and better waterway signing.

Using the expertise in each of our core business areas, we will grow our income and cut costs by analysing our activities and developing forward-thinking ideas for business growth. Examples include setting up the National Property Business, and the auction of moorings space to establish true market rates.

The Joint Ventures and Restoration business areas are typically the most difficult to plan with certainty, being the most volatile. [\[Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000\]](#). However, this is effectively a timing issue, with profits being realised in year 2 if not in 2007/08, albeit only if we are successful in securing planning permission. We have covered this risk by being prepared to flex expenditure on Major Works [\[Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000\]](#).

There is potentially £15m of risk associated with the £60m of Restoration projects across the plan period. This is primarily related to the Cotswolds project, which remains unfunded within the constraints of this plan.

A further sensitivity in the plan arises from the challenging assumptions that we have made about the growth of our craft licence income, with a 30% real increase on current prices expected by 2010/2011.

However, there may also be some income earning opportunities. In recent years we have achieved on average approximately £2m per annum in premium payments from waterside property developers, who require access across our navigations. Although not known about at the time of planning, we have previously included a speculative sum of £2m in our plans on the basis that we would probably continue to receive some payments. This year's plan only includes such premiums that we are already aware of, one of which is for £1.75m in 2007/08 in the West Midlands. So, on the basis of past trends, planned income

could increase by circa £2m per annum in later years. There are also signs of potentially greater profit from the sale of the foodstore site in the Gloucester Quays JV for 2007/08.

Waterway Units have been reorganised to operate more effectively, with functional, rather than geographic, teams delivering the works programmes. Further efficiencies will be achieved through a review of our equipment holding and much improved procurement methods. All business units are tasked with identifying and implementing further efficiency savings, such as headcount reduction through natural wastage or new ways of working; reducing energy consumption; being more pro-active about recycling materials and eliminating duplication in business processes. Such actions, which have not all yet been identified and quantified, will provide an opportunity to improve our planned outputs.

Head Office functions have been analysed through a Zero Based Review of activities, resulting in a reduction of 42 non-essential posts by 2007/08. The Headquarters building in Watford will be sold in 2008 and staff moved into cheaper rented premises. Whilst the Central plan is relatively flat in future years, ongoing efficiency savings will be a top priority.

3.2 Summary financial schedules

Profit and Loss	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Income					
Waterway Units					
Property (exc. Premiums)	9,719	10,866	11,390	12,024	14,078
Property Premiums	793	2,493	375	335	375
Leisure	21,598	23,514	25,216	27,731	30,388
Utilities	18,232	19,534	19,951	20,456	21,386
Total Commercial	50,342	56,407	56,932	60,545	66,227
Core Waterway	14,664	7,800	6,715	6,734	7,362
External Funding	13,461	26,273	16,365	8,330	8,121
Waterway Unit Management Costs	337	280	280	280	280
Major Works	4,161	5,800	1,685	1,000	-
Total Waterway Units	82,966	96,560	81,977	76,888	81,990
National Property Business	22,103	22,447	22,735	22,944	23,572
National Restoration	6,993	30,929	23,986	1,035	792
BW Share of Joint Ventures	15,028	43,362	62,869	98,896	117,417
British Waterways Marinas Limited	6,057	6,788	7,609	8,413	9,174
Corporate HQ Departments	790	1,460	1,592	1,346	1,337
Total Income (exc. Grant)	133,937	201,546	200,769	209,523	234,282

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Waterway Units					
Property (exc. Premiums)	6,005	8,012	8,487	8,978	10,968
Property Premiums	793	2,493	375	335	375
Leisure	14,500	16,043	18,168	20,470	22,971
Utilities	17,593	18,371	18,896	19,377	20,278
Total Commercial	38,891	44,919	45,927	49,160	54,592
Core Waterway	(55,485)	(65,305)	(65,014)	(67,369)	(70,146)
External Funding	(1,276)	(2,715)	(1,645)	(1,450)	(1,383)
Waterway Unit Management Costs	(8,412)	(11,564)	(12,000)	(11,755)	(11,532)
Major Works	(28,272)	(27,460)	(27,535)	(31,223)	(33,796)
Total Waterway Units	(54,553)	(62,125)	(60,267)	(62,638)	(62,265)
National Property Business	16,887	17,150	18,015	18,371	18,966
National Restoration	(302)	(1,217)	(1,211)	(376)	(1,626)
BW Share of Joint Ventures CBT	2,676	8,500	5,846	13,099	14,479
British Waterways Marinas Limited	384	820	1,091	1,303	1,605
Corporate HQ Departments	(33,751)	(28,363)	(28,251)	(29,313)	(29,640)
Grant	70,606	68,037	66,764	65,521	64,306
CBIT before Contingency	1,947	2,802	1,988	5,968	5,826
Interest Payable (exc. Joint Ventures)	(4,010)	(3,557)	(3,423)	(3,358)	(3,312)
Interest Receivable (exc. Joint Ventures)	2,673	1,450	1,425	1,150	1,125
CBT - Revenue before Contingency	610	695	(10)	3,759	3,639
Contingency	(1,000)	(3,000)	(3,000)	(3,759)	(3,639)
CBT - Revenue after Contingency	(390)	(2,305)	(3,010)	-	0
Gains/(Losses) on Disposal (exc. Joint Ventures)					
Property	16,483	9,022	13,086	4,256	10,782
Other	419	354	99	73	136
CBT - Capital	16,902	9,376	13,185	4,329	10,918
Unrealised Gains	25,748	13,918	13,849	17,422	19,192
Cost of Capital	(34,964)	(37,235)	(37,448)	(38,620)	(36,990)
EVC	7,296	(16,246)	(13,423)	(16,869)	(6,880)

3.3 Key Performance Indicators

Property - Return/ROCE		2006/07	2007/08	2008/09	2009/10	2010/11
		F10 Forecast	Plan	Plan	Plan	Plan
Development Property	Total Return	8.4%	11.8%	15.0%	10.3%	17.0%
	Simple Return	2.1%	2.3%	1.8%	1.7%	1.4%
Investment Property						
National Property Business	Total Return		9.5%	10.8%	9.4%	11.1%
	Simple Return		4.7%	4.7%	4.9%	4.7%
Waterway Unit Property	Total Return	12.6%	14.2%	11.6%	12.9%	15.7%
	Simple Return	6.0%	9.3%	8.4%	9.1%	11.2%

BW Marinas Limited		2006/07	2007/08	2008/09	2009/10	2010/11
		F10 Forecast	Plan	Plan	Plan	Plan
Occupancy %		93.0%	89.0%	88.0%	90.0%	94.0%
CBIT (£m)		0.4	0.8	1.1	1.3	1.6
Capital Employed (£m)		6.2	7.7	10.9	12.8	13.7
ROCE %		6.5%	11%	10%	10%	12%

Joint Ventures		2006/07	2007/08	2008/09	2009/10	2010/11
		F10 Forecast	Plan	Plan	Plan	Plan
CBT (£m)		2.7	8.5	5.8	13.1	14.5
Capital Employed (£m)		68.2	99.6	115.2	125.4	138.3
ROCE %		3.9%	8.5%	5.1%	10.4%	10.5%

Customers and Visits	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Calendar Year - Survey (millions)	268	289	315	353	406
Satisfaction (Excellent and Good Scores)					
Overall Upkeep - Boating Customers	71.5%	73%	74.5%	76%	77.5%
Overall Enjoyment - Non Boating Customers	93%	93%	93.5%	94%	94%
ICP					
Number of Complaints at First Level	635	<1000	<1000	<1000	<1000
Number of Complaints at Second Level	59	<100	<100	<100	<100

Safety	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Three Day Reportable Injuries	13	10	8	6	5
Non Reportable Lost Time Injuries	24	18	14	11	8

People	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Total Permanents	1,802	1,862	1,837	1,837	1,837
Absence Days per Employee (MAT)	7.06	6	6	6	6

Major Works	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
% of Assets with D&E Condition Grades	22.1%	21.4%	20.7%	20.0%	19.3%

Core Waterway	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
% achievement of Minimum Safety Standard	no data	100%	100%	100%	100%
% achievement of Standards at Destinations	no data	90%	90%	90%	90%

3.4 Brief commentary on financial schedule

The Property business area is now split into the Development Estate, National Property Business and the locally managed Investment Estate. Overall contribution is projected to increase from £27.7m in 2007/08 to £30.3m in 2010/11, despite a net outflow of £40m of capital value from property into ventures and reasonably prudent assumptions regarding the reinvestment of disposal proceeds. We will also achieve efficiencies through better property management and more efficient working practices.

In the Leisure business area, challenging assumptions in respect of the growth in boat numbers as well as licence and moorings price increases generate circa 13% annual growth in CBIT. However, our attractions are expected to be loss-making throughout the plan period and particular attention will be paid to the Falkirk site, for which the Scotland Director will put forward a master plan for improvement.

The Utilities business shows modest growth, with no more large income receipts expected for surface water discharge or other arrears agreements as in recent years. [\[Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000\]](#).

Core Waterway expenditure will increase by £3m from 2006/07 levels, reflecting an 85% level of funding for waterways' steady state operations. Whilst we cannot achieve the full level of desired funding to achieve our steady state objectives, the 85% allocation represents a significant achievement in terms of our planned outputs, made possible by the reorganisation of Core teams and more efficient working practices. Business Units are

expected to achieve 100% attainment of minimum safety standards throughout the network and 90% of customer service standards at destinations.

The newly presented External Funding business, will also contribute to the achievement of our steady state outputs. This comprises regeneration projects that are managed locally, utilising available funds from local authorities and Regional Development Agencies for example. The peak in activity in years 1 and 2 reflects the Olympics-related regeneration of the Bow Back Rivers in London.

Waterway Unit Management Costs comprises the salaries (56%) and premises costs (23%) associated with running the Waterway Units. Both of these areas have targeted efficiency savings, with business processes being identified for transfer to the Shared Service Centre in Leeds to generate an average 30% efficiency saving.

£120m of BW funding will be invested in Major Works over the four plan years. This will address the highest priority grade D and E assets across the waterways, as well as inspections and dredging. Funds have been allocated so as to achieve at least 90% of the planned works programme and 100% of inspections.

National Restoration comprises four major schemes that are managed centrally, these being primarily the Cotswolds Canals, the Droitwich Canals, Liverpool Link and Manchester, Bolton and Bury Canal Restorations. CBIT deficits fluctuate across the plan period according to the estimated works being undertaken in each year. There is a degree of risk attached to the projects, which has not been factored into the plan. This was estimated at £7.2m when the projects were first approved, but could now be nearer to £15m. Including property valuation risk as well as construction risk, our exposure on the proposed Cotswold scheme could have been as high as £10m, which was unacceptable. Alternative proposals are being sought to limit the risk to a more acceptable level. The extent of risk will become clearer as we enter year 1 and work on engineering solutions and funding agreements is completed. Only at that time will the relevant decisions be taken and the impact on the project and the overall plan fully understood and quantified.

Joint Ventures contribution is projected to increase from £2.6m in 2006/07 to £8.5m in 2007/08 and £14.5m by 2010/11. After a period of initial losses and marginal profits in many of the JVs over the plan period, ventures except Wood Wharf are expected to make significant profit contributions to BW and generate higher levels of financial return than we could expect in our property activities. It should be noted, however, that there is some degree of risk associated with the timing of JV distributions and capital investment, to the extent that there may be some movement of income and expenditure flows between years.

Contribution from British Waterways Marinas Limited grows throughout the plan period, with capital investment in new and existing sites as well as further efficiency savings being achievable.

Corporate HQ Departments will achieve an underlying £2.7m saving in payroll costs by 2008/09 as a result of the Zero Based Review of activities and the resulting reduction in headcount of 42 posts. However, the plan is relatively flat from year 2 and further efficiency measures will be sought to improve results still further.

The grant line reflects the assumed reduction in Defra grant at a rate of RPI minus 5% year on year as shown in the analysis of grant income below.

Grant	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Defra - Revenue Grant in Aid	55,497	55,337	54,064	52,821	51,606
Defra - Capital Grant Release	1,494	1,300	1,300	1,300	1,300
Scottish Executive	13,615	11,400	11,400	11,400	11,400
Total Grant Income	70,606	68,037	66,764	65,521	64,306

4 SUMMARY OF MAJOR RISKS

4.1 Property and Joint Ventures

Our total property portfolio is currently valued at £559m, of which £46m relates to the operational estate. The non-operational property portfolio has increased in value to £513m through strong capital growth, offset by the net disposal of property to fund capital into our ventures.

Investment in our joint ventures and subsidiaries is £68m, having more than doubled in the last 18 months with the main components being £5m into isis; £20m into Wood Wharf; £12m cash and land transfer into Gloucester Quays and a capital repayment from Edinburgh Quay of £5m on the Phase one office development.

Equity investments in JVs are expected to increase to £115m by March 2009 and £138m by March 2011, the largest movements being into isis and Wood Wharf, which are by far the biggest of our ventures.

Risk Management

At portfolio level the level of risk within our ventures is manageable, with our risk spread across a number of ventures and sectors, each with separate partners, enabling us to challenge and validate market assumptions. There is also geographic diversity across the UK, and most schemes are mixed use and developed in phases at different times to allow flexibility and react to market conditions. Our greatest risk exposure is usually at the point of committing to a construction contract without a pre-let with no certainty on final sale. Our corporate governance, management teams and partner expertise are crucial in making these decisions.

Our current main areas of risk comprise:

Venture/ site	Market	Exposure
Edinburgh Quay	Office	Phase 2 completed in Jan 07 – no tenant identified for 60,000 sq ft space (£1.7m expected rent). £11m debt in company accruing interest.
isis Manchester	Residential	200 unit residential tower 8 months into construction. 63 units exchanged and 14 reserved. Build contract £30m funded by £20m of bank debt (£5m drawn to date).
Wood Wharf, London	Mixed use	Substantial land assembly costs and master planning fees expended prior to planning permission – application to be submitted mid 2007.

[Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]. This scheme has been delayed due to planning issues and we expect a decision by September 2007, which will provide certainty on the impact to the plan.

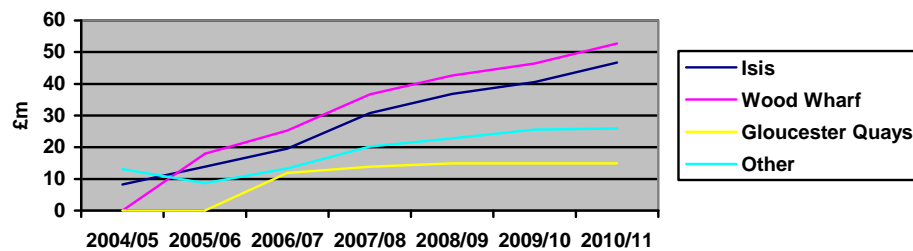
Other areas of exposure in 2007 are the letting of a residential / commercial construction contract of up to £46m at Leeds Granary Wharf (isis) and the letting of a factory outlet centre construction contract for £90m at Gloucester Quays. The decision to let a contract at Gloucester Quays will not go ahead without BW Board approval.

The isis plan assumes the direct development of nearly 3,000 residential units and 430,000 sq ft of commercial space; it will also land trade nearly 2,900 residential units and 136,000 sq ft commercial space.

At Edinburgh Quay we plan to let 60,000 sq ft of offices in 2007 and to commence the build of 154 residential units and 5,500 sq ft leisure space. This will be in joint venture with another party so our effective interest is only 25%.

Funding the Ventures - Equity

The equity investment in our ventures will increase from £68m currently to £138m by March 2011, primarily into Wood Wharf £30m; isis £24m; BWML £8m; Pubs £4m and Gloucester Quays £3m. The latter is a contingency in case the scheme is unable to be fully debt funded in the early part of the project. The cumulative investment into the major ventures is set out below:



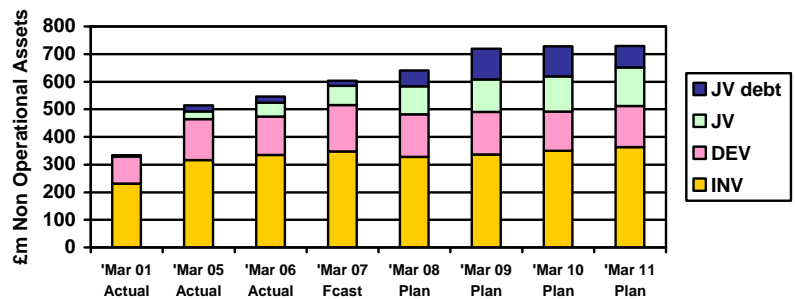
Over the four year plan period the net cash expected to be invested into our ventures is £70m, to be provided from our property disposals.

Funding the Ventures - Debt

Bank borrowings in our ventures are expected to increase to circa £230m by 2010/11, of which our notional 50% share is £115m. This relates to isis, £70m, Gloucester Quays, £110m, Pub Partnership, £35m, and Wood Wharf, £14m.

isis and Gloucester Quays present the greatest level of risk in the plan, with risk exposure at Wood Wharf increasing substantially thereafter. The successful isis and Gloucester schemes will return capital or have secured tenants / sales, which could help fund commitments into Wood Wharf. Clearly if isis and Gloucester Quays are delayed or suffer adversely from market conditions, we will re-evaluate our position regarding Wood Wharf.

Our total capital employed (excluding the operational estate) is shown in the table below, which clearly shows the relationship between our balance sheet assets and our share of venture debt.



The debt assumptions in the chart above exclude the deep discounted loans within Wood Wharf that are matched with cash on deposit.

4.2 Customers and Stakeholders (including leisure market)

We will focus on improving the way that we communicate and interact with our business partners and customers, because we understand that these relationships are key to the delivery of our corporate vision.

Our prime focus for growth in customer visits is the development and management of 100 destinations along our network, which will generate the opportunity to benefit financially from the increasing footfall. Each waterway unit is tasked with identifying on average 3 sites per annum to be enhanced or developed as destinations.

Through the Customer Service Transformation, we have already identified areas requiring significant improvements and these will be targeted throughout the plan period. In addition, our new Customer Service Standards will be in place by June 2007. We have set compliance targets in respect of these standards, which should drive improvements in customer satisfaction scores and numbers of visits. We aim to achieve a minimum of 90% compliance with the standards at all destinations.

The Leisure plan provides some particular challenges, with a target of 2% per annum growth in boat numbers and a focus on reducing evasion, together with a planned real increase in licence prices of 30% by 2010/11. In addition, mooring fees will continue to be reviewed on a site by site basis to ensure that we are charging an appropriate market rate for our berths. An average 5% per annum increase in price is projected. Clear and effective consultation with our users will be key to the success of these objectives, and boat owners must be prepared to pay market rates for the services they enjoy.

We will hold a trial on-line auction of mooring sites in April 2007, which should provide us with good information about the true market value of our moorings. We hope to be able to use the information gained to help us to set future mooring prices. This is a new and innovative approach for us, which, if successful, we hope to repeat in the future. However, there is a good deal of reputational risk associated with the auction, should it not work as well as we expect.

The New Marinas Unit is on target to deliver its original plan of 10,000 new berths in third party marinas by 2015. Our moorings strategy complements this by aiming to remove one on-line mooring for every ten created by the NMU. We aim to improve the cost-effectiveness of our moorings management and to deliver an improved, more consistent service to the customer.

Attractions present a further risk, with the performance of the Falkirk Wheel site being consistently below target in prior years. The Scotland Director will develop a master plan for the site early in 2007 to make recommendations for improving and extracting value from the site.

4.3 Waterways

The three overarching priorities are to continue to improve safety, efficiency and customer service. These are not stand-alone, but interlinked. For example, sound asset management processes are important in safeguarding the public from asset failure, but also contribute to efficient use of resources, targeted according to benefit priorities and to improve customer service through improved network reliability.

The development of steady state and customer service standards is improving our targeting of funding; improving the clarity of detailed operational priorities and hence our required outputs; and providing clearer measurable standards – all to drive operational efficiency and customer service.

£113m of expenditure is planned, comprising £73m for core waterway operations, £33m for major works, of which £5m is from external sources, £5m of operational capital and £2m of BW contribution to externally funded schemes. However, this will only be affordable if income streams and contributions from other business areas are achieved.

Other risks to the achievement of planned works on the waterways are:

- Reductions to grant funding over the plan period
- Asset failures that may consume more contingency funds than identified in the plan
- Inflation assumptions may be insufficient to deliver all the major works schemes
- Delivery of minimum safety standards may detract funds away from delivering customer service standards at key destinations
- Mobilisation of functional teams may be slower than anticipated and therefore we could fall behind delivery of our general works programme.

Assumptions have been made about efficiency savings, some of which are realised within the plan and others that have not yet been quantified.

- Functional team working becomes effective from 1st April 2007. The efficiencies from this functional team working have been assumed in year 2, when more output is expected from the same level of funding
- There will be a rationalisation of operational building, plant and equipment over the next two years, but much of this efficiency has not yet been included in the plan. Profits from disposal of operational land and buildings released to property development teams in years 3 & 4 are not yet included
- We will identify more contracting out opportunities for our general works programme (GWP) to ensure our in-house resources are directed at our customer requirements
- There will be benchmarking between waterways and functional teams to ensure efficient working practices are shared.

In order to monitor progress and to ensure that we are delivering the 'moments of truth', as identified in our marketing strategy 2007-2012, we will:

- Measure compliance with all our safety procedures including managing contractors and volunteers
- Measure compliance with minimum safety standards, assessing and reporting by July 2007 and putting programmes in place to achieve 100% compliance by March 2008. For example, we know that we do not have anti slip on all our lock walkways. A programme will be put in place to rectify this by March 2008.
- Measure compliance with customer service standards throughout the entire network, assessing and reporting by October 2007.
- Continue with our asset inspection programme to grade our Principal Assets for condition and consequence of failure. We will reassess all our grade E assets by March 2008.
- Continue to refine and update the steady state financial model to inform future funding requirements and benchmarking costs internally and externally.

4.4 Restoration Projects

Restoration is one of the most risky areas of the plan, with £60m to be spent on delivering the major projects over the next four years.

We are planning to allocate £4.2m of BW funding to these projects, comprising £2.9m for the Cotswold Canals, £0.6m for the Droitwich, £0.5m for the Liverpool Link, £0.1m for the Manchester, Bolton and Bury Canals and the remainder on other smaller schemes.

However, at this stage, the total funding packages have not yet been secured for the Cotswolds or Droitwich projects, which clearly represents a risk to BW in terms of our ability to deliver the schemes.

BW carries the construction risk on all the projects and we must ensure robust project management to avoid unplanned overspends, which could jeopardise the achievement of our outputs across the other business areas. The expected cost to BW of the risk elements being realised has been estimated for all projects, but excluding the Cotswolds, at a total of £5.2m, and is highlighted as part of the project approval process. This estimate was based on the probability of risk events arising, and their likely impact, and comprised £3.8m for the Liverpool Link, £1.2m for the Droitwich and £0.2m for the Manchester, Bolton and Bury Canals.

Further investigations and feasibility works on the Cotswolds demonstrate that the potential outstanding risks, including engineering and property valuation risks, on this project alone could total up to £10m. The plan, as it currently stands, cannot fund this level of risk and discussions continue to find an alternative method of financing the project and managing risk.

We are involved in eleven Big Lottery Bids across the country. However, only one of the bids, for which BW is the lead partner, has a significant impact on this Plan. This is the 'Community Challenge: Designing and Delivering a Living Landmark' bid relating to the Cotswolds Restoration (stage 1b). In this context, we may be asked to provide a £2m contribution in year 2 of the Plan to the HELIX 'creating living connections' bid if it is successful. The bid is being led by Falkirk Council and seeks to complete the Millennium Link – the final stage of the canal network connection. This possible funding requirement is not provided for in the Plan.

Although not classed as a Restoration scheme, the Bow Back Rivers project in London is a significant externally funded scheme. We have secured £18m of funding for three lock control structures within the Olympic Games site. The project is due to be completed in mid-2008. This is an important project for British Waterways, both in London and nationally, giving us an opportunity to showcase our waterways before, during and after the 2012 London Olympic Games.

4.5 Human Resources

We will continue to support our business through our revised People Strategy that was approved by the Board in 2006. This focuses on performance management, attraction and retention of staff, capabilities and potential, reward and recognition and work environment and climate.

Given the scale of the reorganisation that has taken place over the last year and the resulting changes to people's jobs, we may face increased levels of risk in some areas. Clear communication will be critical to ensure that employees in new or different roles understand their objectives and outputs and where these fit into the wider business. Otherwise, there may be a downturn in motivation and staff retention and potentially lower quality outputs.

The Employment Stability Programme has been invoked for a number of employees as a result of the reorganisation, with some employees still on trial periods in their new roles. Should these not prove satisfactory, further costs could be incurred in respect of redundancies and recruitment. The potential gross risk should be no more than £0.5m for further redundancies.

The level of BW's employer contribution in to the pension fund is assumed to be unchanged in the plan. However, this will be reviewed as part of the forthcoming triennial valuation to be carried out by the Fund actuary during the summer of 2007. The Trustee and BW Directors will have a clearer understanding of the issues in September / October which will inform the next business planning process.

Central Management and Shared Costs

A comprehensive Zero Based Review of all activities within the Head Office functions was carried out as part of this year's planning process and in line with the CSR. Significant efficiencies were sought in order to develop a more sustainable Central resource to direct and support our business.

Payroll and staff-related costs make up the largest area of expenditure within Central teams. A total of 42 non-essential posts were identified out of a total of 320 across all Head Office functions, with teams being streamlined to efficiently resource only those activities that contribute directly to the achievement of our vision. Posts have been reduced through a targeted redundancy programme and by reallocating responsibilities amongst other staff members.

Together with other efficiency measures, this has resulted in a 9.3% improvement in CBIT for 2007/08 compared to that planned for the prior year. Clearly, there are risks associated with the loss of so many staff, in terms of our ability to achieve planned outputs and to retain the people required to fulfil new responsibilities.

Watford-based teams will vacate the Willow Grange premises in the final quarter of 2008 to new rented premises. The plan assumes that the move will generate a saving of over 2,000 sq m of office space compared to that currently occupied and that there will be a £0.5m saving on office running costs. Similarly, one floor of Fearn's Wharf, Leeds, is to be vacated for letting to a third party tenant. The total cost of not achieving the targeted savings on these office reorganisations could be up to £1m.

4.6 Sustainability

Commitment

We are committed to maintaining and developing the waterways in a sustainable way, so that they fulfil their full economic, environmental and social potential. This means that, whilst we need to make an appropriate commercial return on our assets, this will not be at the expense of public benefit. We will deliver our corporate objectives without compromising the quality of life for future generations.

Policy

We are proposing a draft policy to cover the following areas:

- **Sustainable economic growth and employment**

We will promote urban and rural regeneration through our waterways, bringing economic benefits to local communities. We must achieve our financial targets across the business in order to be able to contribute to regeneration schemes.

- **Effective protection of the environment and prudent use of natural resources**

Conservation of the waterways' natural and built environment is a key objective. We will continue to develop our skills and knowledge and to work with partners to minimise impacts on the wider environment.

We will promote the use of the waterways for sustainable transport and will minimise waste and carbon emissions. Targets are embedded in this plan for improving our efficient use of energy, water resources and materials. Measures will be based on whole life costs and we will seek to source materials locally whenever appropriate. We will promote best practice amongst our staff, suppliers, customers and partners.

- **Social progress which recognises the needs of everyone**

Using the knowledge of our local people and partnering with local community groups, we can improve and promote the waterways as safe, accessible and enjoyable for all sectors of the population and foster strong local ownership and engagement.

Reporting

In establishing our standards and performance targets and within the constraints of our resources, we aim to be ahead of the national average, but not leading edge.

We aim to follow the Global Reporting Initiative (GRI) standards, which will be adjusted to reflect our business context and priorities. All measures will be clearly defined and performance monitored through robust data collection and reporting procedures. This will provide a sufficiently reliable and supportable basis to meet corporate governance reporting standards.

4.7 Devolution and Funding

Devolved Scottish funding

BW Scotland ("BWS") receives its funding directly from the Scottish Executive ("SE"), the devolved government for Scotland. The SE was established in 1999, following the first elections to the Scottish Parliament.

The MSP elections are on 3rd May 2007. Whatever the election outcome, it is likely that there will be sharper focus from the SE on accountability for Scottish grant and the need for clear, transparent accounts for BWS.

Once the accounting and allocation issues relating to devolved accounting for Scotland are concluded the main commercial issues are likely to be:

- (a) the amount of capital employed in BWS, or in other words the "paid up share capital" of BWS,
- (b) the need for separately identifiable Commercial Capital balances for Scotland and E&W,
- (c) the need to arrive at break even results for each entity, and
- (d) the need to consider how the national joint ventures such as Isis and the Pubs Partnership will develop Scottish assets.

The risks in this course of action are that profits arising from Scottish JV property developments, such as Edinburgh Quay, have been utilised in balancing the overall BW budget to break even. Allocation of these profit streams to Scotland only will cause the

E&W budget to become negative and the potential for additional expenditure in Scotland. In addition, the separation of commercial capital between Scotland and E&W may cause unplanned shortages in both regions from time to time. A revised version of this Business Plan's financial statements is in the course of preparation to identify and quantify consequences.

The attached Appendices list BW's planned priorities and milestones, together with supporting financial schedules.

17th April 2007

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APPENDIX 1: ENVIRONMENTAL SUSTAINABILITY

A1.1 Summary of plan

Our outputs make a contribution to sustainable living, eg the provision of a green corridor for public benefit. Similarly, everything we do can be done in a sustainable way, such as by using less energy and more recycled materials. Sustainability will be embedded within the way we do things and we will have targets to deliver sustainable outputs and to improve the way in which we deliver those outputs. This will also apply to the way we monitor and report progress in meeting our sustainability targets, in that we will not require any extra resource over and above the commitments in our Corporate Plan.

Sustainability targets are embedded within each of our business areas and are included within the relevant sections of this plan. Those for environmental performance are set out in this section as these are not specific to particular business areas.

A1.2 Carbon emissions, absorption and energy usage

As a national organisation, we have 10 principal offices across Britain as well as other smaller customer service buildings and there will always be a need for employees to travel between sites. Over the last three years, we have reduced office to office mileage significantly by introducing video conferencing equipment to all main sites facilitate 'virtual' meetings.

The management of our company car fleet and liveried vehicles has been transferred to the Shared Service Centre, which will monitor business mileage in future, utilising data from the fleet service provider. Vehicle provision will be reviewed during the course of the plan period to further 'clean up' the fleet and vehicles with a Euro rating below Euro III will be eliminated.

We are conscious of our carbon absorption levels, but being part of our everyday operations, we have not yet established an effective means of measurement.

We also monitor our energy consumption, concentrating on electricity as our gas consumption is minimal. Following the business reorganisation, we will establish a full inventory of energy use and a new electricity usage baseline for each business unit as at May 2007, requiring a 10% per annum reduction thereafter.

A1.3 Wildlife habitat

Our waterways provide a home for a rich and diverse range of wildlife, which is of national importance. The potential impact of our actions upon local wildlife is an inherent part of our risk assessment processes. We take pride in our expertise in protecting and restoring the precious flora and fauna and the environment in which they live, whilst putting the waterway network to good use.

Local biodiversity action plans have been established by the local units and must be kept up to date. These are essential tools for delivering sustainable solutions.

Data is not yet formally recorded on the number of IUCN Red List species and national conservation list species with habitats in areas affected by operations. We would need to survey and identify where all Red List species are present and capture these on the GIS species matrix.

A1.4 Water quality and flood control

Good water quality is important in developing the business and we work pro-actively at all levels with the Environment Agency in this area. We will be subject to greater regulation in the future as a result of the Water Act and the European Water Framework Directive, with a particular requirement to demonstrate efficient use of our water resources.

We have invested in a national SCADA and hydrometric network to facilitate water monitoring and control, however, further significant investment will be required to ensure compliance with increasing regulatory requirements. We aim to establish a full inventory of potable water use as well as comprehensive data capture for all water diversions, transfers and abstractions along our network.

This could be by reporting our metered supply and would help the implementation of water efficiency measures in our offices and for customer use.

A National Flood Management Strategy will be produced during 2008 to help identify and reduce risks from flood events, particularly in the light of more frequent flooding in recent years.

A1.5 Waste management

All business units are tasked with establishing a Waste Management Strategy to record recycling, disposal routes and record management. This will apply equally to the office waterside environments.

Dredging waste cannot be reduced, but we do aim to minimise the dredgings taken to landfill sites. We have had gained environmental and financial benefits by disposing of dredgings on adjoining land and only taking segregated contaminants to commercial landfill sites. Some dredgings can also be recycled as aggregates.

Targets will be set for recycling and waste minimisation.

A1.6 Recycled materials

By 2006/07 we met our target of using 45% recycled or secondary aggregates in our work. We aim to increase this to 65% utilisation in each of the plan years. Sustainability registers are used on all construction projects to encourage, target and record resource minimisation.

All lock gate timber is now procured with Forest Stewardship Council certification and other timber must be verified as from sustainable resources. All ironwork, such as from old lock-gates, is collected and saved for recycling. Similarly any other steelwork recovered in our operations, that cannot be reused, will be recycled.

The scope of total materials will be defined, so that only the more significant purchases are subject to cost effective measuring, eg total materials consumed by Omnibus and restoration contractors. We will look to our Shared Service Centre to place the onus on suppliers of materials and energy to state the total materials used or energy consumed and the extent to which these are from renewable or recycled sources.

A1.7 Milestones and priorities

Priorities	Milestones	Date
To use increase use of renewable materials	100% of timber for lock gates from FSC approved suppliers	Throughout
(measured as % of total materials)	Timber from FSC approved suppliers for other uses	From April 2008
To increase use of recycled materials (incl. aggregates, steel, metals, paper)	Recycled materials used in our construction will represent	
	<ul style="list-style-type: none"> 45% of total materials 	May 2007
	<ul style="list-style-type: none"> 65% of total materials 	May 2008
Reduce energy consumption	Establish electricity use baseline	May 2007
	Create action plans with the aim of achieving 10% reduction on 2007 baseline	Each year
	Full inventory of energy use	April 2008
Control water consumption	Full inventory of potable water use	April 2008
Protection of biodiversity	SACs in favourable, or moving to favourable, condition	
	England – 67%	March 2007
	England – 95%	March 2011
	Scotland – 85%	March 2009
	100% of biodiversity action plans completed	Throughout
Reduce carbon emissions	Elimination of vehicles with a rating below Euro III	March 2008
	Create an action plan to achieve significant reduction in business mileage	March 2008
Improve waste disposal	15% reduction in BW waste into landfill sites	March 2008

APPENDIX 2: HUMAN RESOURCES STRATEGY

A2.1 Summary of the plan

The Board approved our revised People Strategy in July 2006. This aims to support BW's continuing development of a safe, efficient and customer-focused business by concentrating activity in five key areas:

- **Performance management** – to enable the delivery of our business plans by our people
- **Attraction & Retention** – to secure the requisite people resources to achieve our plans
- **Capabilities & Potential** – to ensure the business has the right skills for today and grows skills for the future
- **Reward & Recognition** – to provide appropriate incentives and recognise people's contribution
- **Work Environment & Climate** – to provide the conditions to encourage people to work well and harmoniously.

A2.2 Priorities and milestones

Milestones	Date
Fully align performance objectives with business plan priorities and introduce key business behaviours	September 2007
Introduce leadership development programme to increase capabilities and number of high potential people	June 2007
All people in the Senior Talent Pool to have a clear development programme	September 2007
Employee satisfaction scores back to 2005	March 2008
Absence levels reducing below 7 days per person per annum	December 2007
Minority ethnic employment levels increasing to above 3%	Ongoing
Turnover levels maintained at less than 10%	Ongoing

APPENDIX 3: CUSTOMERS AND STAKEHOLDERS

A3.1 Summary of the Plan

We recognise the huge importance that our relationships with customers and stakeholders play in enabling us to deliver our objectives. During 2006/07 we have developed our understanding of how we interact with third parties and identified areas requiring behavioural, structural and business process improvements.

These improvements will be made to ensure that our staff are equipped with the skills and knowledge to deliver appropriate standards of customer service and to communicate effectively.

Together with the development of destinations across our waterways, this will progress our vision of increasing customer visits to our waterways, with a projected 50% increase on current visits anticipated by the end of the plan period.

A3.2 Customer Service Transformation

The Customer Service Transformation was developed to drive an increase in the number of visits to our waterways, and the value derived from them, in line with our corporate vision. During 2006, £350k was allocated to fund studies, research and a programme of activity to promote customer focus and the establishment of a clear set of customer service standards. Customer visits are projected to exceed 480m by 2012, with an associated expenditure in excess of £2bn. We will aim to participate in 6% of this (approximately £120m) through various rental opportunities for which we have allocated commercial investment funds.

Our research shows that the largest single area of growth for customer visits is likely to be waterside regeneration, ie activity in which BW is not always a direct participant. We estimate that we are currently involved in schemes with a development value in excess of £7bn. This has informed our marketing strategy and the reshaping of business units, with much greater emphasis on the proactive management of B2B relationships including local authorities (through the planning process), enabling bodies, developers and associated waterside businesses.

All customer visits are important to us but we are focusing on destinations that offer the highest potential growth in visitors, visits and the greatest potential to monetise such increasing footfall. We plan to have approximately 100 destinations by the end of the plan period. Key destinations are being prioritised by the Business Units in 2007/08 as follows:

Business Unit	Site 1	Site 2	Site 3
London	Little Venice/ Paddington	West India Quay, Docklands	Brentford
South East	Banbury	Oxford	Stoke Bruerne
South West	Gloucester	Caen Hill	Bradford on Avon
West Midlands	Birmingham City Centre	Stourport	Hatton
East Midlands	Trent Lock	Loughborough	Gunthorpe
Yorkshire	Sowerby Bridge	Skipton	Clarence Dock
Wales and Borders	Anderton	Nantwich	Pontcysyllte
North West	Wigan	Bugsworth	Manchester

Customer Service Standards have been developed during the last year, focusing on staff behaviours and on physical requirements such as appropriate signage at waterway destinations. These are being combined with our new Technical Standards for waterway maintenance to provide a complete set of Customer Service Standards by June 2007.

We will deliver our marketing strategy through a single central agency contract which will co-ordinate campaigns and where appropriate provide template material to allow local implementation. For business to consumer marketing, our marketing strategy will focus on:

- Functional Customers: promoting inland waterside destinations (locations) not British Waterways or individual waterways
- Passionate Enthusiasts: promoting our linked network and individual waterways for boating and angling
- Activity Seekers: promoting our waterways for boat trips and boating holidays.

For business to business marketing we will focus our efforts on:

- Waterside and destinations as one of the UK's most popular places to live, work and play
- The key role that the waterside plays in regeneration
- The waterside and destinations as attractive investment opportunities
- BW as the ideal business partner to ensure that investment is successful – based on a very successful track record.

National campaigns will be rolled out as appropriate e.g. the Inland Marina Investment Guide, road show for local authority planning departments. Local business units will concentrate on developing relationships with new and existing B2B customers and enablers within the context of national initiatives.

A3.3 Stakeholders and communications issues

A 2006 survey of consumer-facing waterside businesses highlighted some key deficiencies in BW's estates management, commercial and communications skills. A complete B2B action plan is now in preparation and the 2007/08 CST programme will include account management training and development in each business unit as well as properly defined accountabilities.

Training has also started to develop staff communication skills to enable them to talk more effectively to customers and to each other. Over 600 staff have already been trained and this will continue throughout the first year of the plan.

Options are being considered for the establishment of a customer contact centre, to handle all customer telephone calls. This could improve customer service and secure efficiencies across the business. A recommendation will be made following further analysis of calls by type and volume, which is currently being undertaken. The feasibility of a single contact centre will depend on the suitability of systems and processes to manage all information required by customers, as well our ability to make information available in real time at a single location.

A3.4 Communities and education

The waterways bring huge social benefits and opportunities to local communities, providing accessible public open spaces and enhancing quality of life. However, our resources are limited, so we have to manage our efforts carefully and we have concentrated on making real progress in the following areas:

- Access for all – meeting the requirements of the Disability and Discrimination Act
- Community relations – encouraging greater use by a diverse range of people, reduction in vandalism and anti-social behaviour
- Education – through Wild Over Waterways, providing an interactive web-site, educational resources linked to the national curriculum for Key Stage 2 children and activities for the under 16s.

A3.5 Milestones and priorities

Priorities	Milestones	Date
Increase the number of visits to the waterways from c 300 million to c 450 million by 2011.	<ul style="list-style-type: none"> • Prioritise destinations in line with the marketing strategy priorities and drive footfall through national marketing campaigns 	100 destinations by the end of the plan (approx 3 per unit per year)
Deliver marketing strategy	<ul style="list-style-type: none"> • Central marketing contract in place 	Q1 2007/08
Deliver customer satisfaction	<ul style="list-style-type: none"> • Implement 'moments of truth' physical standards at priority destinations • Implement all non-physical 'Moments of Truth standards • Monitor customer satisfaction through mystery shoppers • Meet enhanced customer satisfaction targets • Complete communications skills training for staff • Complete account management training for B2B staff • Implement recommended option for a customer contact centre 	2007/08-09/10 April 2008 Ongoing Annual targets March 2008 March 2008 Dec 2007

APPENDIX 4: SUMMARY OF COMMERCIAL CAPITAL

A4.1 Investment strategy

The key elements of the investment strategy are:

- Disposal of low value and/or high management cost properties that are not relevant for future development, or do not sufficiently contribute to our corporate objectives. Disposal of development sites to maximise land trade profits.
- Focus our investment expenditure on the existing estate where we can improve our properties or acquire interests which release marriage value. New acquisitions should be in areas where BW has the best chance of rental and capital growth through increased footfall or waterway improvements
- Development acquisitions should maximise short term rental income and prioritise area based regeneration sites where we have best opportunity to influence planning and land values. The key area based regeneration areas will be identified in the business plan submissions.

A4.2 Tables of commercial capital movements

The table below shows the projected cash inflows and outflows from our capital programme.

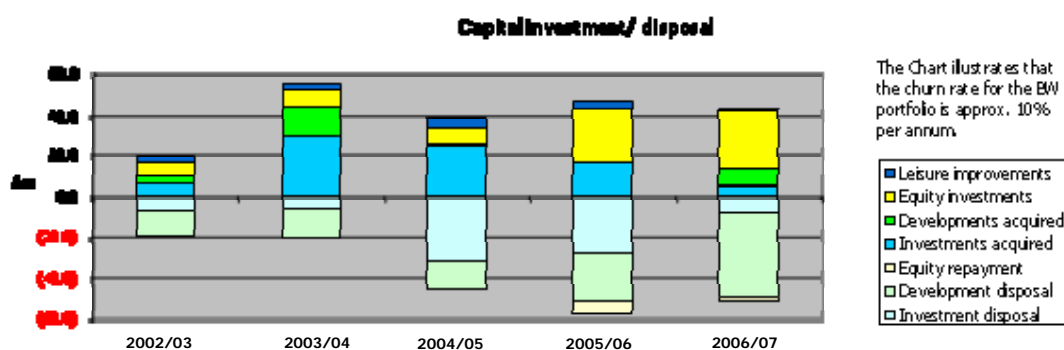
	Actual 2004/05	Actual 2005/06	F10 Fcast 2006/07	Plan 2007/08	Plan 2008/09	Plan 2009/10	Plan 2010/11
Disposals							
Investment - Business units	31	28	8				
Weston Point	31	28	8	17	6	6	8
Development	14	22	10	0	0	0	0
Willow Grange sale	14	22	31	26	47	7	28
Contingency for delays	0	0	0	4	7	0	0
Joint venture - equity repaid	0	0	0	(5)	(5)	5	5
	0	7	3	0	4	0	2
	45	57	52	42	59	18	43
Investments							
Investment	25	17	5	4	4	4	4
Property investment for leisure occupancy	1	0	1	3	3	3	3
Development	1	1	8	8	8	8	8
Joint venture - equity invested	7	27	29	32	20	10	15
Directly managed - Cust Insight	4	5	1				
	38	50	44	47	35	25	30
Other							
Tax payment	(2)	(7)	(14)	(6)	(8)	(6)	(6)
Repay POLP loan	0	0	0	0	(4)	(4)	(5)
Transfer from No1 account	0		3	0	0	0	0
Easynet share sale	0	4	0	0	0	0	0
Pension repayment/ payment	(6)	6	0	0	0	0	0
	(8)	3	(11)	(6)	(12)	(10)	(11)
Cash b/fwd	15	13	23	20	9	21	4
Cash c/fwd	14	23	20	9	21	4	6

Our capital projections for the next four years anticipate property disposals of £156m of which £71m will be invested in ventures; £60m in property investments and developments; £13m to repay the POLP loan; and £26m for tax on disposals. Assuming we begin the plan period with cash at hand of £20m we would end the plan with cash of £6m. Achieving this level of disposals from the estate will be challenging as we come to the end of disposing of the largest development sites and complete the disposal of the most obvious investment properties.

We are aware of the pressure on the property estate to deliver this quantum of cash and are pursuing a number of avenues to mitigate this risk:

- Sale and leaseback of our office properties eg Fearn's Wharf
- Rental of new office premises eg to release capital from Willow Grange
- Delay the repayment of the POLP loan through negotiation with DEFRA
- Review of all our operational properties to release capital or land for alternative uses
- Consider sale of matured investment assets which generate modest (but good quality) returns eg ground rents
- Creation of an outline business case to joint venture or sell the residential estate
- Preparation of the National Property Business investment estate for possible joint venture.

This level of portfolio churn compares to our historical investment and disposal programme as shown in the chart below.



A4.3 Commentary and sensitivities

Cash flow over the plan period is expected to be much tighter than in the past due to the commitments into the ventures and the decreasing pipeline of major development sites which are ready for sale. We have recognised this position for some time now and are working up the proposals noted above to help release more capital. We are also very aware of the need to reinvest now into the next generation of development sites which will be producing capital receipts in 5 to 10 years time. Despite these pressures on cashflow, we are confident that the plan is robust and there is sufficient flexibility within our schemes to react to situations as they arise.

There are often short term timing differences between the profits earned by the joint ventures and the distribution of cash back to BW, particularly where sales proceeds are deferred or where profit is reinvested by the venture into a subsequent phase. In year 1 of the plan, isis distributions are reasonably well matched with profits earned. However, for Edinburgh Quay the projected profit is earned in year 1 but the distribution is in year 2. This timing difference will have to be met from working capital or the commercial bank account. The unremitted profits in Gloucester Quays are matched more or less by the losses in Wood Wharf, which are non cash items for BW. There is sufficient headroom

within the projected commercial cash balances to manage these movements in the first two years of the plan.

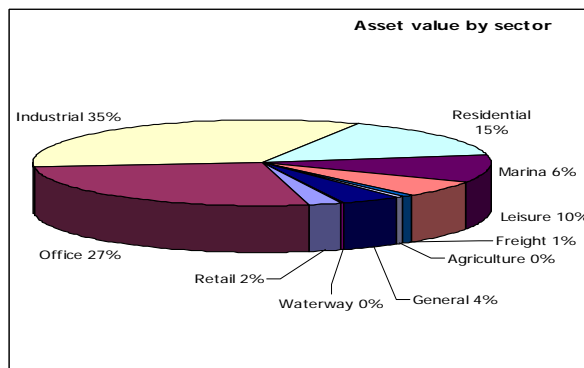
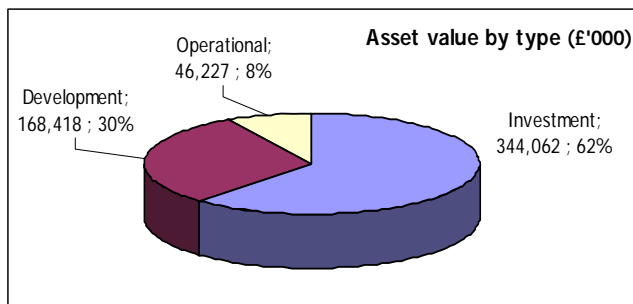
The total unremitted profits in years 3 and 4 are currently projected to be £8.8m and £10.1m respectively, the largest mismatch between profits and distributions relating to isis at £4.7m and £10.3m respectively. In reality, it is likely that distributions will be more closely matched with profits when the larger schemes are remodelled to separate the phases of development. Edinburgh Quay reports profits of £2.1m in year 3 with a distribution in year 4. Again, these timing differences would have to be met from the commercial cash balance.

Whilst the projections show a relatively low level of surplus cash in the latter years of the plan, we have identified a number of strategies to release capital. We are therefore confident that we will have sufficient commercial capital to manage the timing differences.

APPENDIX 5: PROPERTY

A5.1 Summary of the plan

Our property portfolio can be summarised in the charts below:



The objectives for the property business area are:

- Maximisation of commercial returns (contribution and total) from investment properties, access to our properties and development sites
- Regeneration of waterway property into sustainable mixed use schemes and enhancing waterway facilities.
- Creation of destinations attracting more visitors whether by BW or third parties
- Facilitation of the success of our ventures

The majority of the investment assets owned by BW are let on relatively long, secure leases that provide a degree of security to rental flows in the event of a market downturn. The primary purpose of the development estate is regeneration and to supply capital to our ventures and for property investment. The end use of many development schemes is residential. Hence a slowdown in the residential market would inevitably delay sales and cause us to re-evaluate our strategy. However, at the same time we would probably curtail our development activity in the joint ventures.

The property business area is now split between the development estate, national property investment estate and local investment estate, each of which is measured separately. Local investment estate management teams will focus their attention on the waterway centric property assets and develop income opportunities from wayleaves, premiums, advertising contracts and ATM rentals.

The plan makes reasonably prudent assumptions on how surplus disposal proceeds are reinvested back into property over the plan period. £15m pa of property reinvestment is assumed, of which £8m is into development property, earning a 2% income return, and £7m into investment property, earning a 5% income return.

Within the property business area we could reasonably expect to receive £2m pa of speculative property premiums. These have historically been earned from bridge crossings, where a developer pays BW to cross over the canal to link a scheme to existing infrastructure. Premiums received over the last three years, 2004/05 to 2006/07, have

totalled £1m, £1.3m and £2.9m respectively. However, we have taken the decision only to include in this year's plan those future premiums that are already known about and are likely to be realised, including a £1.75m receipt in year 1 within the West Midlands Waterway Unit. Whilst the plan projections do not include any purely speculative premiums, we will target areas where such revenues could be achievable in order to increase our corporate contingency.

Property controllable costs are expected to decrease from £8.8m in 2006/07 to £8.2m in 2007/08, reducing further over the plan period to £7.7m, through efficiencies from the restructure and outsourcing the national property business.

Property contribution is projected to increase from £27.7m in 2007/08 to £30.3m in 2010/11. This is despite a net outflow of £40m of capital value from property into ventures. In 2007/08 contribution is £1.2m better than that achieved in 2006/07 on a like for like basis.

Capital growth on the waterway investment estate is expected to be 2% pa in the first two years; 1% in the third year and 3% in the fourth year in line with market expectations. Over the four year plan period we are projecting a net increase in property values of £20m, comprising capital growth of £60m, disposals at book value of £100m plus new acquisitions of £60m. Total property disposal proceeds are expected to be £140m, of which £60m will be reinvested in property, with the remainder being invested into our ventures and paying tax on disposals. Total returns on our property estate are 10-12% pa over the plan period.

A5.2 Financial tables and KPIs

Income	Figures in £k				
	2006/07 F10 Forecast	2007/08 Plan	2008/09 Plan	2009/10 Plan	2010/11 Plan
Waterway Units					
Investment	5,282	4,500	4,582	4,739	6,317
Leisure	3,508	3,621	3,745	3,927	4,121
Wayleaves	907	4,787	2,879	3,037	3,253
Subsidiaries	663	-	-	-	-
Other	153	451	559	655	762
Total Waterway Units Income	10,513	13,359	11,765	12,359	14,453
National Property Business					
Investment	15,081	15,758	16,551	17,124	17,809
Development	7,021	6,294	5,399	4,765	4,438
Reinvested Disposal Proceeds	-	395	785	1,055	1,325
Total National Property Business Income	22,103	22,447	22,735	22,944	23,572
Total Income	32,615	35,806	34,500	35,303	38,024

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Waterway Units					
Investment	2,635	2,498	2,548	2,557	4,084
Leisure	3,120	3,124	3,221	3,395	3,578
Wayleaves	841	4,456	2,558	2,730	2,944
Subsidiaries	49	-	-	-	-
Other	153	427	535	631	737
Total Waterway Units CBIT	6,799	10,505	8,862	9,313	11,343
National Property Business					
Investment	13,009	13,407	14,673	15,247	15,949
Development	3,878	3,348	2,557	2,069	1,692
Reinvested Disposal Proceeds	-	395	785	1,055	1,325
Total National Property Business CBIT	16,887	17,150	18,015	18,371	18,966
Total CBIT	23,685	27,656	26,877	27,685	30,310
Interest Payable	(13)	-	-	-	-
Interest Receivable	160	-	-	-	-
Gains/(Losses) on Disposal	16,483	9,022	13,086	4,256	10,782
Unrealised Gains	25,748	13,918	13,849	17,422	19,192
Total Return	66,064	50,595	53,813	49,362	60,284
Cost of Capital	(27,932)	(29,155)	(28,336)	(29,132)	(29,980)
Total EVC	38,131	21,441	25,477	20,231	30,304
Operating Costs					
	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Payroll	3,433	2,745	2,806	2,899	2,975
Internal Time Recharges	(952)	(356)	(344)	(360)	(369)
Staff Related Costs	567	384	407	420	419
Materials and Contract	1,729	1,661	1,458	1,455	1,500
Plant and Machinery	3	3	2	3	3
Premises and Office Costs	1,937	1,292	1,252	1,265	1,278
Professional Fees	1,951	2,065	1,685	1,586	1,575
Marketing	19	8	7	7	8
Other Costs	97	197	192	185	168
	8,783	7,999	7,466	7,461	7,558
Depreciation	147	152	157	157	157
Total Operating Costs	8,930	8,151	7,622	7,618	7,715

The business unit simple returns for years one to three are around 5.0% to 5.4% after controllable costs of circa 28% of income. This increases to 7% net simple return and controllable costs of 25% in year four, due to additional income projected in London. We have reviewed the property performance in detail and believe that simple returns of circa 5% are reasonable given the nature of our estate, which includes some low yielding ground rents and residential cottages in rural areas. We are continuing our rationalisation of the estate by disposing of poorly performing assets. Further enhancement to the performance of the waterway property estate would be achieved by reviewing and streamlining the management of the residential estate.

The investment estate in the national property business shows an increase in net simple return from 6.8% in 2007/08 to 7.4% in 2010/11, which we believe is likely to be comparable with performance from IPD. Controllable costs reduce down to 6.1% of income in 2010/11. Further opportunities are expected to emerge from the proposal to outsource the management of this estate to an agent.

	F10 Fcast 2006/07	Plan 2007/08	Plan 2008/09	Plan 2009/10	Plan 2010/11
Development					
Total return	12.3%	11.8%	15.0%	10.3%	17.0%
Disposal proceeds	39.3	21.1	46.7	7.5	27.8
Property reinvestment	8.3	8.0	8.0	8.0	8.0
National Property Investment Business					
Contribution	13.5	14.1	15.1	15.7	16.4
Net simple return	6.6%	6.8%	7.1%	7.2%	7.4%
Controllable costs	6.7%	8.6%	6.9%	6.5%	6.1%
Property reinvestment	5.7	7.0	7.0	7.0	7.0
Capital growth	11.9%	2.5%	2.5%	2.5%	2.5%
Waterway investment estate					
Property contribution	5.4	5.8	6.0	6.2	7.9
Net simple return	n/a	5.0%	5.3%	5.4%	7.0%
Controllable costs	n/a	28.3%	28.4%	29.1%	24.8%
Total contribution	n/a	8.8	8.9	9.3	11.3
Disposal proceeds	14	17.1	5.1	6.0	4.9

Development returns in all years are above 10% and generate sufficient disposal proceeds combined with Business Unit targets to create a balanced capital programme. Controllable costs in 2007/08 are much higher than in other years and reflect quite high materials and contractor fees and professional fees to extract value through active estate management. Contribution from the development estate declines over the plan period as sites achieve vacant possession ready for development or are sold.

A5.3 Commentary on tables and performance

The property business area now includes property wayleaves (previously shown in core), that are projected to grow from £2.5m in 2006/07 (part of which was shown in core waterway) to £2.9m in 2010/11. The line described as "other" is £0.2m of rental income from our historical freight wharves and the remainder is new advertising revenue from our deal with SI Media. This new advertising revenue is expected to grow from £0.3m in 2007/08 to £0.6m in 2010/11. The focus on new income streams from advertising and enhancing existing income streams in wayleaves and property investments is expected to generate contribution growth from £8.8m to £11.3m over the plan period, despite property sales to fund other acquisitions and venture equity. The big jump in contribution in 2010/11 of £2m is largely attributable to London, where contribution is projected to increase by £1.6m through rental incomes at Camden Interchange and Docklands. The apparent decrease in contribution from investment property in the waterway units is because in 2006/07 we received a £0.5m premium at Jericho, which is recorded in the results of the South East business unit.

A5.4 Description of specific plans

The following area based regeneration areas are being targeted by the property development teams for site assembly and work with the local planners.

North	South	Scotland
Blackburn	Olympic zone, East London	Edinburgh
Long Eaton	Black Country	Glasgow
Newport	Northampton	Falkirk
Gainsborough	Birmingham	Bowling
Castleford	Coventry	Muirtown
Attercliffe	Cotswolds	Ardrishaig
Grantham		
Doncaster		
Northwich		
Langley Mill		

A5.5 Outsourced management

BW is pursuing two major strategic projects to improve the management of our property estate. The first is the outsourcing of the management of our high value investment and development estate to an agent. The second is the consideration of how to manage our residential portfolio.

Nationally (including London), the high value investment portfolio consists of 89 properties, having a capital value of circa £221m as at 31st December 2006, and a projected rent roll of £15.8m for 2007/08. There are circa 150 development assets (excluding London which will continue to be managed by London estates team, having a capital value of £77m as at 31st December 2006 and a projected rent roll of £2.4m for 2007/08). We are seeking tenders from agents to manage this portfolio. The agent will invoice and collect cash from the property tenants on our behalf, provide monthly management reports and be incentivised to maximise the net income from the portfolio as well as cash receipts. An OJEU compliant Invitation to Negotiate was sent to the 5 most qualified parties (DTZ; GVA Grimley; King Sturge; Atisreal and Savills) in February 2007. The agent will begin management of this estate from April 2007.

We currently own approximately 500 residential properties worth some £48m. The net simple returns on these properties is 2-3%. We are putting together an outline business case to consider joint venturing this estate with a residential property manager. The objectives from any management solution are to increase disposal proceeds, better manage the increasing regulatory burden and improve total returns. A joint venture appears to a possible solution to help release capital, retain influence and benefit from external management. This concept is supported by a report from Pricewaterhouse Coopers which was completed in January 2007.

An outsource management regime similar to that recommended for the investment estate has been rejected since the residential estate is not seen as a core part of BW's operations. We have created a financial model which analyses the returns from three options: do nothing new (ie manage ourselves with piecemeal disposals); sell all the residential properties in year one in a bulk sale; and joint venture. An outline business case is being prepared for March 2007 with a view to working up the project in 2007/08 and going live with a joint venture or other structure in 2008/09.

A5.6 Affordable housing

BW's contribution to this agenda is defined as where affordable housing is to be delivered on development schemes in which BW is involved. We do not report on land that is simply next to our waterways, where we have no direct influence in the delivery of its development. Usually, the delivery of affordable housing comes at a cost to the development, which reflects in the land value that we achieve from our ownership interests. At 30 September 2006, 2256 social houses were planned to be built on development sites on which BW has influence; 38 have been completed and 8 are under construction. Units are under construction at West Quay, Gloucester.

Our policy in respect of affordable housing is to comply with, rather than go beyond, planning obligations. The schemes that we promote attempt to be sustainable in a number of ways and provide social benefit that complements affordable housing provision. Each six months we monitor, through the quarterly property report, schemes that are projected to deliver affordable housing over a number of years: the sites where the greatest affordable units are expected include Gloucester Quays (200 units), Diglis (69 units), Clarence Dock (54 units), Tower Wharf (38 units), City Road Basin (90 units), isis (745 units across all schemes) and Wood Wharf (840 units).

A5.7 Milestones and priorities

Priorities	Milestones	Date
Deliver commercial investment strategy; including acquisitions, disposals, portfolio mix and target returns.	• Disposal receipts of £35m pa (£150m over 4 year plan)	2007/08 - 10/11
	• Investment target (including JV equity) of £30m pa (£130m over the four year plan) of which investments in priority regeneration areas of £8m pa	2007/08 - 10/11
Ensure all properties have registered title	• Voluntary registration achieved for entire property estate	March 2008
Accelerate disposal of low value and poorly performing assets	• Disposal of at least 50 low value (less than £200k) or operational properties per annum	2007/08 -10/11
Proactive management of investment estate	• National property business operational and deliver agreed plan	June 2007 / March 2008
	• Achieve total returns on major investment estate in line with IPD	2007/08 - 10/11
	• Waterway assets to achieve gross returns of 7.0% rising to 8% and net returns 5.0% rising to 5.5%	2007/08 to 10/11
Efficiently manage the property cost base	• Achieve £1.75m premium at Four Ashes, Birmingham	March 2008
	• Controllable costs 28% of total income for waterways and 7% for NPB (8.6% year 1)	2007/08 -10/11
Enhance the value of sites by reaching agreed development milestones	• Achieve total returns on development estate of at least 10% pa	2007/08 - 10/11
Enhance income from core	• Achieve property wayleaves	2007/08 -10/11

operational property rents, wayleaves and premiums	income including wayleaves premiums of £2.7m (exc Four Ashes, above) rising to £3.0m <ul style="list-style-type: none"> • Achieve advertising income of £0.25m rising to £0.5m pa 	2007/08 - 10/11
Work up strategic priorities and implement	<ul style="list-style-type: none"> • Residential property review 	
	<ul style="list-style-type: none"> > Outline business case 	May 2007
	<ul style="list-style-type: none"> > Opportunity to market 	June 2008
	<ul style="list-style-type: none"> > Venture created 	June 2009
	<ul style="list-style-type: none"> • Joint venture of major investment assets > Outline business case 	April 2008
	<ul style="list-style-type: none"> • Identification of surplus waterside government property 	March 2008

APPENDIX 6: LEISURE

A6.1 Summary of the Plan

The plan for our Leisure business builds on the successful income growth and contribution of recent years. It presents some aggressive challenges for the plan period.

The key objectives of the plan are to:

- maximise commercial returns from boating and leisure businesses
- encourage volume growth in paying boating customers.
- encourage the private sector to provide boating services whether moorings, retail or ancillary services and ensure associated contracts provide an acceptable return or cost saving for BW
- create a series of linked destinations, aligned with the Customer Service Transformation project, to improve overall customer satisfaction.

A6.2 Financial tables and KPIs

Figures in £k

Income	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Craft Licences	12,329	12,817	13,967	15,875	18,017
Moorings	4,818	5,290	5,713	5,975	6,149
Angling	862	913	707	732	750
Leisure Development and Marketing	80	118	137	156	175
Retail	973	965	1,013	1,037	1,062
Attractions	2,172	2,344	2,441	2,516	2,606
Wayleaves	364	1,067	1,238	1,439	1,630
Total Income	21,598	23,514	25,216	27,731	30,388

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Craft Licences	11,523	11,811	12,964	14,789	16,932
Moorings	3,359	3,632	4,005	4,243	4,398
Angling	292	36	295	321	330
Leisure Development and Marketing	(778)	(460)	(390)	(375)	(365)
Retail	25	171	233	244	252
Attractions	(284)	(178)	(140)	(156)	(168)
Wayleaves	364	1,031	1,201	1,403	1,593
Total CBIT	14,500	16,043	18,168	20,470	22,971
Cost of Capital	(631)	(634)	(579)	(576)	(572)
Total EVC	13,868	15,409	17,589	19,894	22,399

Operating Costs	2007/08	2008/09	2009/10	2010/11
	Plan	Plan	Plan	Plan
Payroll	3,101	2,977	3,091	3,163
Internal Time Recharges	214	217	220	223
Staff Related Costs	348	340	345	356
Materials and Contract	1,395	1,330	1,362	1,398
Plant and Machinery	187	180	181	183
Premises and Office Costs	343	329	337	341
Professional Fees	276	179	186	171
Marketing	310	287	303	321
Other Costs	919	911	938	962
	7,093	6,751	6,963	7,119
Depreciation	378	297	298	298
Total Operating Costs	7,471	7,048	7,261	7,417

Key Performance Indicators	2007/08	2008/09	2009/10	2010/11
	Plan	Plan	Plan	Plan
Increase in licensed boats	2%	2%	2%	2%
Increase in licence price	2.7%	30% over 3 years		
Licence income	12,817	13,967	15,875	18,017
Number of licences	30,590	31,530	32,530	33,180
Yield per licence	419	443	488	543
Evasion rate	5.5%	4.0%	3.0%	3.0%
Patrol / licensing costs as % of income	8%	7%	7%	6%
Increase in moorings price / connection agreements	8.5%	5%	5%	5%
Moorings income	5,290	5,713	5,975	6,149
Length of moorings (m)	74,928	73,579	72,402	70,954
Yield per metre (£)	70.6	77.6	82.5	86.7
Attractions CBIT	(178)	(140)	(156)	(168)

Boats and boating represent the largest segment of the Leisure business area, with craft licensing and mooring fees generating almost 80% of the total earned income. This income is expected to increase by up to 11% per annum over the plan period through a combination of price increases, improved processes, reduced evasion and growth in boat numbers.

Moorings prices are under review and will be increased where necessary to ensure that market rates apply. A trial on-line auction of mooring sites is planned for April 2007, which should provide us with good information about the true market value of our moorings. If this is successful we will be able to use the information gained to help us to set future mooring prices and we may hold further auctions in the future.

The New Marinas Unit is on target to deliver its original plan of 10,000 new berths in third party marinas by 2015. Our moorings strategy complements this by aiming to remove one on-line mooring for every ten created by the NMU, a reduction of over 5% across the plan years. We aim to improve the cost-effectiveness of our moorings management and to deliver an improved, more consistent service to the customer.

The price of a craft licence is set to increase by 10% above inflation per annum for three years from 2008/09, following a period of consultation with our users, which seeks to move away from the inflationary pricing model used in recent years.

We are aiming aim to increase the number of boats on our waterways by 2% per annum throughout the plan period and to target those boat owners who try to evade payment of their licence and mooring fees. Our target is to reduce the impact of evasion to no more than 3% of total licence numbers. In a climate of increasing prices, this will present some challenges to local waterway teams and there is clearly a degree of risk attached to the plan projections. However, market research suggests that, whilst challenging, the plan targets are realistic and well-founded.

The recently restructured business units should now have sufficient resource in plan to deal with the demands of the plan. In addition, funds have been allocated for a marketing plan to support the boating market and promote the anticipated growth in boat numbers.

The Craft Licensing Function will move from Watford to Leeds by autumn 2007 to reduce cost through synergies with Shared Services.

Angling, with a net £0.3m annual contribution, is not a major contributor to Leisure profits, but is expected to be relatively stable across the plan period. First year results will be affected by the sale of Makins Fishery, with which the local business unit has experienced numerous difficulties since its acquisition.

We will seek new ways of improving our **retail** performance. For example, at the Caen Hill site, we are currently investigating the feasibility of entering into an agreement with a third party to run the café. This sort of arrangement has the potential to provide a more certain and enhanced return to BW, given that such operations are not our core business.

Attractions are expected to be loss-making in all four plan years, primarily due to the reduction in paying customers to the Falkirk Wheel site. Whilst retail and catering operations are expected to generate profits in the order of £0.2m per annum, the £0.2m forecast loss for 2006/07 at the visitor centre and wheel site is likely to increase to losses of up to £0.4m per annum over the plan period. The Director of Scotland will bring forward a master plan in early 2007/08 for Falkirk, with recommendations to ensure that we can get the best value from the site.

The Anderton visitor centre plan shows modest profits of approximately £30k per annum, whilst the Standedge site is expected to make a £40k loss each year.

Wayleaves, primarily in the form of marina connection agreements were previously included within Core Waterway but are now part of the Leisure plan. The projected income estimates from the New Marinas Unit of the new marinas coming on stream in each of the plan years are included here and are now aligned with our other moorings income. This reflects our policy of reducing on-line moorings, with the NMU still on target to deliver 10,000 berths in off-line marinas over the 10 years from 2006/07.

A6.3 Milestones and priorities

Priorities	Milestones	Date
Grow the leisure business CBIT in line with the plan	Boating	
	<ul style="list-style-type: none"> Implement national campaign to maintain growth in boat numbers despite price increases 	Start April 2007 - review March 2008
	<ul style="list-style-type: none"> Complete consultation with users on licence price increase 	By December 2008
	<ul style="list-style-type: none"> Trial auction bidding for mooring sites 	Start May 2007
	<ul style="list-style-type: none"> Implement preferred solution for management of moorings business 	From April 2008
	<ul style="list-style-type: none"> Reduce mooring costs from 40% to 37% over the four year plan 	Ongoing
	<ul style="list-style-type: none"> Reduce evasion to 3% 	Annual target
	<ul style="list-style-type: none"> Deliver new marinas in line with national target for 10,000 more berths by 2015 and 1,000 fewer online moorings 	Fit with NMU projections
	Other	
	<ul style="list-style-type: none"> No new attractions – but need to ensure all three existing trade profitably 	Improved profits each year
	<ul style="list-style-type: none"> Master plan developed for the Falkirk Wheel site 	June 2007
	<ul style="list-style-type: none"> Strategy agreed for the sale of Makins Fishery at the best achievable price 	March 2008
	<ul style="list-style-type: none"> Implement angling action plans already agreed as part of dialogue with NFA/NAFAC 	Start April 2008

APPENDIX 7: UTILITIES

A7.1 Summary of the plan

Key objectives are:

- Maximisation of commercial returns from utility services running along, in or utilising the waterway
- Making the best use of the scarce resource for water supply and discharge, property heating and cooling.

Over the past few years we have put considerable effort into growing this business. In 2003/04 the annual income from utilities was £13.8m plus gas and electricity arrears of £10.8m. Over the plan period annual income is expected to grow from £19.5m to £21.4m, with the majority of the increase arising from a review of wayleave agreements and major five yearly rent reviews on the national contracts. Prior to this plan we have also merged the utility and water sales management teams to realise costs savings. Accordingly the key output from this business area is the maintenance of the existing contract and identifying opportunities along with the business unit for growth.

The key risk and opportunity in this business area is the ongoing dispute with Thames Water, who extract water from the River Lee in London. Thames argue that they should be able to extract for free based on historical contracts dating back to the 19th century [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]. Neither the upside nor downside risk is included in the plan.

Longer term growth opportunities to be exploited at the end of the plan period are sales of water from the canal for heating and cooling of buildings and increased water sales to Bristol (and on to Wessex water via Bristol's new ring main).

A7.2 Financial tables and KPIs

Figures in £k

Income	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Utilities (Electricity, Gas, Telecoms)	10,381	9,619	9,718	9,820	9,974
Water Sales	4,006	4,273	4,355	4,437	4,522
Surface Water Discharges	2,996	3,002	3,002	3,002	3,421
Wayleaves	848	2,639	2,876	3,197	3,469
Total Income	18,232	19,534	19,951	20,456	21,386
CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Utilities (Electricity, Gas, Telecoms)	10,134	9,217	9,329	9,408	9,549
Water Sales	3,616	3,734	3,915	4,002	4,077
Surface Water Discharges	2,996	3,002	3,002	3,002	3,421
Wayleaves	846	2,418	2,650	2,964	3,230
Total CBIT	17,593	18,371	18,896	19,377	20,278
Total EVC	17,573	18,304	18,849	19,329	20,230

Operating Costs	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Payroll	284	296	310	324	338
Internal Time Recharges	3	143	145	147	152
Staff Related Costs	55	59	62	66	69
Materials and Contract	7	83	83	83	85
Plant and Machinery	0	-	-	-	-
Premises and Office Costs	9	122	123	125	128
Professional Fees	277	259	131	134	136
Marketing	-	-	-	-	-
Other Costs	-	5	5	5	5
	635	966	860	884	914
Depreciation	4	196	195	195	195
Total Operating Costs	639	1,162	1,054	1,079	1,108

A7.3 Commentary on performance

The utilities business area now includes circa £2.5m pa of utility wayleaves income that was previously reported in core. This is expected to grow to £3.5m pa over the plan period. Operating costs are projected to increase from £0.6m in 2006/07 to £1.2m in 2007/08, reflecting an allocation of £0.2m from core for plant and machinery specifically used to service the Bristol Water contract, together with property management costs to grow and manage the wayleaves business.

A7.4 Milestones and priorities

Priorities	Milestones	Date
[Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000].		
Ensure compliance with terms of the electricity, gas and BT agreements so our income is secure	<ul style="list-style-type: none"> £3m income per annum 	2007/08-10/11
Maintain SWD agreements	<ul style="list-style-type: none"> £3m annual income 	2007/08-10/11
Increase utility wayleave income	<ul style="list-style-type: none"> 10% increase pa in local BU wayleave income especially from private surface water discharges 	
Establish feasibility of canalside heating and cooling	<ul style="list-style-type: none"> Identify five customers indicating in writing a willingness to progress this 	2007/08-10/11
	<ul style="list-style-type: none"> One contract implemented 	2010/11
Complete Thames and United Utilities reviews to secure or improve BW revenues	<ul style="list-style-type: none"> BW submission to Thames on River Lee case 	Aug 2007
	<ul style="list-style-type: none"> Increase UU contract to £610k pa 	Oct 2007
	<ul style="list-style-type: none"> Decision from Secretary of State on Thames River Lee case 	Aug 2008
Grow water sales business	<ul style="list-style-type: none"> Water sales income to achieve £4.3m, £4.4m, £4.5m and £4.6m pa 	2007/08 – 2010/11
	<ul style="list-style-type: none"> Position BW to sell more water to Bristol ready for 2012 water resource planning 	2007/08 – 2010/11

APPENDIX 8: CORE WATERWAY

A8.1 Summary of the plan

The allocation of funds to core waterway for this plan was based on a financial model that we have developed to calculate the amount of funding required to keep the core waterway infrastructure in a 'steady state' of repair.

We do not have sufficient funds to achieve allocation of 100% of Steady State, but we have managed to allocate to all business units 85% of expected funds. Our aim is to achieve 100% delivery of minimum safety standards and 90% delivery of customer service standards at our key destinations. However, given that we can only afford 85% of the Steady State funding budget, we are targeting our expenditure in a more focused way to achieve a safe and secure infrastructure, more efficient delivery through functional teams and many of the "moments of truth" as set out our marketing strategy 2007-2012.

Further savings are assumed in year 2 through the use of bulk purchases, contract negotiations for vegetation maintenance, the reduction in operating costs of plant and equipment through a rationalisation programme and the reduced holding costs of operational property.

A8.2 Financial tables and KPIs

Figures in £k

Income	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Operational Property, Wayleaves etc.	7,305	523	556	573	595
Utilities	0	-	-	-	-
Water Sales	0	-	-	-	-
Recharges	1,799	2,019	1,462	1,501	1,550
Third Party Contributions	814	174	174	174	169
Maintenance Income	3,882	4,334	3,774	3,708	4,239
Freight	689	691	687	713	743
Other	175	60	62	64	66
Total Income	14,664	7,800	6,715	6,734	7,362

Operating Costs	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Customer Operations Management					
Construction	-	14,004	13,989	14,232	14,836
Customer Operations	600	13,218	13,042	14,059	14,886
Rapid Response and Water Control	-	4,058	4,228	4,238	4,385
Vegetation and Waste Management	-	8,967	9,334	9,665	10,043
Dredging and Piling	-	4,415	3,973	4,153	4,191
M&E Maintenance	724	3,758	3,750	3,816	3,932
Inspections	-	1,737	1,145	1,194	1,250
Docklands Operations	1,742	1,702	1,757	1,824	1,867
Customer Operations Income	321	-	-	-	-
Unallocated Costs	26	4,415	4,549	4,662	4,566
Total Customer Operations Management	3,413	56,274	55,768	57,843	59,955
Asset and Programme Management					
Asset and Programme Management Operations	530	3,320	3,787	3,780	4,188
Operational Buildings, Plant and Equipment	1,753	5,845	5,811	6,081	6,254
Total Asset and Programme Management	2,283	9,165	9,598	9,861	10,442
Heritage and Environment	575	1,746	1,680	1,757	1,856
Safety	111	1,029	1,015	1,030	1,078
Self Funding	946	1,451	1,413	1,425	1,494
Dowry Sites	2,437	3,439	2,255	2,186	2,683
Old	60,383	3	-	-	-
Total Operating Costs	70,149	73,106	71,729	74,103	77,509
CBIT	(55,485)	(65,305)	(65,014)	(67,369)	(70,146)
Interest Payable	(2,173)	(2,211)	(2,215)	(2,242)	(2,274)
Gains/(Losses) on Disposal	(343)	354	99	73	136
Cost of Capital	(1,399)	(1,193)	(1,073)	(1,029)	(1,122)
Total EVC	(59,399)	(68,355)	(68,203)	(70,567)	(73,407)

Operating Costs	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Payroll	34,414	31,999	32,762	33,302	33,969
Internal Time Recharges	(2,437)	(2,389)	(2,321)	(2,135)	(1,859)
Staff Related Costs	3,559	3,367	3,206	3,169	3,136
Materials and Contract	19,938	26,665	24,980	26,318	28,330
Plant and Machinery	3,867	4,492	4,448	4,513	4,545
Premises and Office Costs	4,365	3,649	3,529	3,622	3,733
Professional Fees	2,176	1,512	1,256	1,348	1,485
Marketing	464	49	44	45	46
Other Costs	1,556	1,384	1,393	1,446	1,520
Total Operating Costs	67,902	70,728	69,298	71,629	74,905
Depreciation	2,247	2,377	2,431	2,474	2,604
Total Operating Costs	70,149	73,106	71,729	74,103	77,509

Key performance indicators	2007/08	2008/09	2009/10	2010/11
	Plan	Plan	Plan	Plan
RIDDOR reportable accidents (over 3 day)	10	8	6	5
Lost time incidents (1-3 days)	18	14	11	8
Minimum safety standard	100%	100%	100%	100%
Visitor risk assessments completed	50%	75%	90%	100%
Compliance with managing contractors	100%	100%	100%	100%
Reduction in number of operational yards/workshops/stores	300	300	275	275
Adherence to customer service standard at Destinations	90%	90%	90%	90%
Compliance with EA licences	100%	100%	100%	100%
SCAD equipment performance (average downtime)	10%	10%	10%	10%
Heritage compliance (legal and BW procedures)	100%	100%	100%	100%

A8.3 Commentary on tables and performance

The **income table** shows a reduction in income of £6.8m from 2007/08 compared to 2006/07. This is because we have transferred much of this income to other business areas to ensure the correct focus is given by the business in growing these income streams.

The income streams that remain in core waterway are mostly predictable and will remain at £7m for the 4 year of the plan.

Property rents of £0.5m are concerned with rentals relating to our operational property, such as cottages let to employees, that are required for an operational purpose, eg next to a pumping station

Recharges and third party contributions are fees relating to third parties who work on or near the canal or recharging other parties for advice. This is hard to predict over the 4 year period but is expected to be in the region of £1.6m - £2m, depending on the level of activity by developers building on third party land by the canal.

Maintenance income is either

- A specific grant from a local authority to contribute towards the maintenance of a section of waterway. An example of this is on the Kennet and Avon where an agreement was reached with 6 authorities make a contribution to maintain the restored Kennet and Avon canal. This agreement is up for renegotiation in 2016 and represents 10% of the steady state model for this length of waterway.
- The release of dowry income held in the balance sheet to offset expenditure in accordance with the maintenance regimes agreed at the Tees Barrage and Liverpool Docks.

Freight income is in the main generated from activities in London, Scotland and Yorkshire.

The **operating costs** for core waterway have increased by £3m from 2006/7 levels, this reflects 85% steady state allocation attributed to each waterway.

We have changed the way that we analyse operating costs, to align reporting with the way the units have recently been restructured.

Customer operations management

A study carried out determined that more efficient operations and greater output was achievable by using functional teams instead of the traditional length gangs that BW has operated in the past.

The functional teams have the ability to delivery significant efficiencies over the plan period by:

- Developing and adhering to a strict routine maintenance regime based on customer service standards
- Works planned in a uniform way in each business unit dependant on business priority and the removal of localised length budgets
- Working towards delivery of some of the general works programme by contractor, for example vegetation management, cleaning of facilities
- Being experts in the functional teams and not expected to have in-depth knowledge and training across all activities
- Benchmarking activities across business units to ensure best solution to deliver output and the most efficient cost

Unallocated costs relating to the management of the operation are at 8% for the plan period.

Asset & programme management

- Responsible for measuring and recording the condition of Principal and Non-Principal assets, project management of the 4 year major works programme, management of operational water resources and mechanical and electrical equipment.
- The project managers in the business units are responsible for delivering the 4 year major works programme, where we will deliver a programme based on business benefit priority (see section 10.5 for more information).
- During the planned period there will be a rationalisation of operational building, plant and equipment required by the customer operations functional teams. The impact of this is not fully quantified in the plan.

Other operations

All business units have a resource dedicated to ensuring our heritage and environment are protected. This cost remains stable throughout the planned period at 2.3% of core operating costs.

The safety area is concerned with the cost related to Safety Advisers, protective clothing and equipment and safety training. Safety expenditure accounts for 1.4% of the total core budget, of which £1.2m over the 4 year period is safety related training.

Self funding activities are those items that are in addition to steady state, such as freight and the costs of third party works on or near the canal.

Dowry expenditure is the maintenance of Tees barrage and Liverpool Docks where the cost is offset by a draw down of income that we hold on our balance sheet.

There is a £2.4m saving on payroll from 2006/07 to 2007/08, relating to 108 posts being removed from the structure.

Payroll and staff related costs are 48.6%, 50.2%, 49.2% and 47.8% of total operating costs which highlights the intensity of direct labour in BW. Functional teams will allow us to better benchmark and establish whether more GWP should be delivered by contract.

Key performance indicators for the core business area are at present non-financial and are based on compliance with business procedures, delivering efficiency and providing customer service. In time and using benchmarking, these will be developed to be more financially focused to enable cost control and delivery of business priorities.

A8.4 Water supply

The recent floods and droughts are a possible precursor to the impacts that climate change may bring in the next decade.

There is also the impact of the Water Act, which will subject us to regulatory scrutiny and potential constraint of our existing supplies. The European Water Framework Directive will, in due course, require even greater regulation of these resources.

A key requirement arising from the Water Act and Water Framework Directive will be to demonstrate efficient use of water resources. We will need to understand and minimise our losses, quantify all the inputs and outputs from the network, continually update our hydrological models in the light of changing weather patterns and demands, and establish benchmark ecological standards for all of our waterways. We have made progress on all of these fronts, but the impact of the regulatory regimes over the plan period will be significant.

The national SCADA and hydrometric network has enabled a more integrated and efficient approach to water management. Without SCADA and the investment we have made in recycling pumps, large parts of the waterway network would have closed in recent years. We now have in place a core monitoring network giving good quality base data. It will not be sufficient to deal with all the issues that will arise from the new regulatory regime and both the SCADA and hydrometric network will have to be extended and many areas of the hydrometric network updated. Ongoing capital investment of £375k pa is included in the plan to try to achieve this.

Where embankments have a history of overtopping, the risks and mitigation measures are covered through our principle inspection and maintenance programme. However, with the advent of more frequent flooding and climate change, we need to review our procedures. A National Flood Management Strategy will be produced during 2008 to help identify and reduce risks from flood events.

A8.5 Steady State development

The Steady State model has been developed to determine the annualised cost of maintaining and repairing our assets and costs the provision of customer service and vegetation management. The model works by taking relevant data for each BU, such as number of locks, bridges, sanitary stations, kilometres of waterway, and kilometres of hedge and multiplying this by the cost per activity. The costs were determined in 2004 from teams within the business and have been updated for inflation and take into account retail price indices for regional variations.

The model requires updating and refining to take into account key destinations, use of waterways and mechanised structures. The actual costs in SAP will also be used for certain activities over the last couple of years such as hedge cutting, grass cutting, waste

management etc. Refinement of the model will be a continuing process to improve our future estimation and funding allocation.

A8.6 GWP - functional teams and efficiency

The reorganisation to secure the future of the waterways established a change in the way that the general works programme will be delivered, introducing functional teams instead of length gangs.

Business unit priorities will be determined by the works planner and orders raised for either external contract delivery, which will be monitored by the contracts manager, or internal direct labour. Scheduled works will be given to functional team supervisors to deliver and output will be monitored. We will also monitor types of activities by business unit.

Rapid response teams will be on hand each week to sort our customer problems, quickly and efficiently therefore enabling the functional teams to concentrate on the planned works.

A8.7 Dredging

There are two types of dredging on the waterway. Firstly mainline dredging for a stretch of waterway, delivered as part of our major works programme. The current cost estimates are in the range of £40 -£120 per cubic metre, depending on the level of contamination. We extract on average around 3000 cubic metres for a typical 2km length.

Secondly, we undertake spot dredging as part of the routine maintenance of the waterway. This is carried out at bridge entrances, lock entrances and visitor & permanent moorings.

Within the plan for 2007/08, £0.5m is planned for spot dredging in addition to £5.7m for mainline dredging as part of our major works programme. In addition to this we spend £250k per annum surveying the waterways to ensure that funds are directed to the worst areas, based on channel compliance.

A8.8 Standards, Inspections and Condition measurement

We have revised our customer service standards to show those items that are critical to deliver minimum safety standard and those which are target customer service standards. The minimum safety standard will be applicable to all waterways, whereas target standards will be dependant on the number of visitors, use of the channel and use of the towpath.

Measurement of standards will be carried out by exception reporting by raising notifications in SAP where standards are not met. These will be categorised by functional location and type of notifications to determine adherence to standards.

The criteria applicable to the minimum safety standard will be measured and recorded in SAP by 31st July 2007. The GWP will then be amended to address any issues in order to deliver 100% of the minimum safety standard by 31st March 2008.

The baseline customer service target for the rest of the network will be complete by 31st October, which will determine the additional works required at destinations and heavy use areas to meet the target standards over the four year plan.

A8.9 Heritage

Effective heritage management is core to our business. It is a key element in our drive towards making the waterways a valued national asset. We are committed to improving our performance as a heritage manager and to creating economic value by balanced use and development of our heritage assets

Our general managers have a common target of achieving a 'demonstrable commitment to heritage across the business unit'. All waterway units have internal heritage expertise available. Our heritage performance is measured by the Head of Heritage on a quarterly basis and an annual scorecard for heritage is produced.

Key performance measures

- 100% legal compliance
- 100% compliance with BW directions and instructions
- Continued reduction of Buildings at Risk
- Increased competency for heritage across BW
- Waterway Heritage Action Plan active and aligned with business plan.

A8.10 Operational Capital Expenditure

The operational capital plan is based on the consolidated submissions from all business units. A rigorous approval process will follow, with each appropriation request being assessed on its merits, with supporting NPV analysis etc. Operational capital is funded from depreciation, the planned cost of depreciation for the four plan years being £5m, £5.2m, £5m and £5.2m respectively.

Forecast requirements will be dependant of the 2nd phase of project Trafalgar, the impact of functional team working and the rationalisation of plant and equipment. The total requirements by business unit is shown in the table below.

Asset type - acquisition	Number of units				Value £'000			
	2007/08	2008/09	2009/10	2010/11	2007/08	2008/09	2009/10	2010/11
Hoppers	6	20	6	11	173	695	231	930
Non motorised vessels	2	15	7	4	120	581	259	128
Motorised vessels	10	18	9	13	880	1,412	777	528
Dredgers		2	1	1		430	180	180
Floating plant	18	55	23	29	1,173	3,118	1,447	1,766
Mooring pontoons					805	250	30	
Tractors		3	2	2	12	90	60	60
Cranes & hoists	3	1			60	230		
Excavators	2	5	1	1	50	200	50	50
Other miscellaneous plant	34	10	10	9	993	200	220	104
Cars								
Vans	67	62	45	39	1,144	1,020	901	781
Mowers	6	3		1	5	22	12	2
Other operational vehicles	9	4	2	3	304	81	55	75
Office equipment	2			1	35			30
New ways of working	1				210			
Vale royal sluices		1				200		
Trosant springs	1				50			
Anderton	1				100			
SCADA replacement					350	350	350	350
Total British Waterways	144	144	83	85	5,291	5,761	3,125	3,218

The anticipated disposal programme is presented in the following tables. Many of our items are life-expired and fully depreciated therefore are unlikely to show profits on disposal, so this forecast is conservative. Again the impact of the plant rationalisation has not been fully taken into account in this disposal programme. However it is anticipated that the floating plant will reduce as project Trafalgar was approved on a 2 for 1 basis, ie Business Units would buy a new boat and dispose of two life-expired ones.

Disposals by asset type are shown below:

Asset type - disposal profit/loss	Number of units				Value £'000			
	2007/08	2008/09	2009/10	2010/11	2007/08	2008/09	2009/10	2010/11
Hoppers	7	19	14	8	6	23	25	7
Non motorised vessels	3	13	11	5	4	33	31	13
Motorised vessels	24	23	11	5	-1	-17	29	9
Dredgers	2	1	2		5	5	4	
Floating plant	36	56	38	18	14	44	89	29
Mooring pontoons								
Tractors	5		1		2		1	
Cranes & hoists	2			1	2			1
Excavators		1		1		1		1
Other miscellaneous plant	1	1	1	3	9	-1	-1	3
Cars								
Vans	67	49	31	29	76	71	44	43
Mowers	3	1	1	1	2			
Other operational vehicles								
Total British Waterways	114	108	72	53	105	115	133	77

The following table shows the number of planned disposals by business unit.

Operational capital - disposals	Value £000			
	2007/08	2008/09	2009/10	2010/11
East Midlands	9	14	14	14
London	6	-28	-1	0
North West	18	22	18	11
South East	35	42	25	19
South West	20	44	61	14
Wales & Border counties	17	21	16	19
West Midlands	0	0	0	0
Yorkshire	0	0	0	0
Scotland	0	0	0	0
Central	0	0	0	0
	105	115	133	77

A8.11 Milestones and priorities

As with other business areas, the three overarching priorities within Core are to continue to improve Safety, Efficiency and Customer Service.

These are not stand alone, but interlinked. For example, sound asset management processes are important in safeguarding public safety from asset failure, but also contribute to efficient use of resources targeted according to business benefit priorities and to improve customer service due to improved network reliability.

The development of steady state and customer service standards is improving our targeting of funding; improving the clarity of detailed operational priorities and hence our required outputs; and providing clearer measurable standards – all to drive operational efficiency and customer service.

Priorities	Milestones	Date
<i>The safety of our customers, our people and our contractors is paramount</i>		
Visitor safety	<ul style="list-style-type: none"> Visitor risk assessment plan <ul style="list-style-type: none"> > 50% complete > 75% complete > 90% complete Reduce infrastructure related visitor incidents: <ul style="list-style-type: none"> from 15% to 10% then by 1/3 each year 	<ul style="list-style-type: none"> April 2008 April 2009 April 2010 April 2008 2008/09 – 10/11
People safety	<ul style="list-style-type: none"> Reduction of lost time injuries by 25% Reduction in RIDDOR reportables 	<ul style="list-style-type: none"> April 2008 Each year
Contractor safety	<ul style="list-style-type: none"> 100% compliance with managing contractors 	Each year
Volunteer safety	<ul style="list-style-type: none"> 100% compliance with managing volunteers 	Each year
<i>Operational efficiency will be improved through clarity of responsibility, clarity of required outputs and clarity of measurable standards.</i>		
Steady state model continuing development	<ul style="list-style-type: none"> Refinement of model for next planning round 	August 2007
Functional teams	<ul style="list-style-type: none"> In place Review 	<ul style="list-style-type: none"> April 2007 Oct 2007
Maintenance planning fully integrated in SAP	<ul style="list-style-type: none"> 3 year GWP in SAP 	Year on year
National contracts	<ul style="list-style-type: none"> Increase use by 20% on 2006/07 actual 	September 2007
Rationalisation of plant and equipment	<ul style="list-style-type: none"> Review holdings 25% reduction Project Trafalgar review Submit plan for next phase 	<ul style="list-style-type: none"> September 2007 March 2009 August 2007 November 2007

<p><i>Customer service will be improved through better targeting of resources and clarity of standards required standards.</i></p> <p><i>Our focus will be on enhancing our delivery at specified destinations across the country.</i></p>		
<p>Customer service standards finalised and issued</p>	<ul style="list-style-type: none"> • Minimum safety standard established throughout network • 100% compliance with MSS 	<p>June 2007</p> <p>March 2008</p>
<p>Destinations</p>	<ul style="list-style-type: none"> • 3 sites per BU identified • Standards established 	<p>March 2007</p> <p>September 2007</p>
<p>Remainder of network</p>	<ul style="list-style-type: none"> • 90% standard achieved • Baseline standard established • 5% improvement 	<p>March 2008</p> <p>March 2009</p> <p>March 2009</p>

APPENDIX 9: MAJOR WORKS

A9.1 Summary of the plan

Our major works programme has been determined for the next four years on the basis of the Business Benefit Priority Index (BBPI), a scoring system that indicates the projects that will be most beneficial for the business to progress. However, this process has been smoothed over the plan period to account for

- projects that had already started and will continue into next year
- projects which have a low BBPI (Business Benefit Priority Index) score but have been partially funded by third parties and would cause us reputational damage if they did not go ahead (Long horse bridge), and
- safety related reservoir works that do not currently have a BBPI score but are required by the EA to be completed.

Each project submitted for the Business Plan has undergone a rigorous analysis by Head of Engineering and Asset manager to ensure that the right schemes are progressed. This has highlighted some deficiencies in our processes which will be addressed by the new Asset & Programme managers.

There are 3 categories of major works:

- Principal Assets – Investment in condition grade D & E Principal Assets as defined in AIP 2005.
- Other Major works – Investment in Non-Principal Assets such as small embankments and again have be prioritised on business benefit. This will also include third party funded schemes such as Kellingley mining subsidence and North Staffs visitor centre
- Dredging – Investment in mainline dredging maintain the navigable channel in accordance with the requirements of “Canal Channel Performance – Measurement of Compliance and Maintenance for the Future.”. This procedure includes a prioritisation scoring process for dredging.

A9.2 Financial tables and KPIs

Figures in £k

Income	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Arrears	1,995	1,457	-	1,000	-
Dredging	-	-	-	-	-
Other Major Works	2,167	4,343	1,685	-	-
Old	-	-	-	-	-
Total Income	4,161	5,800	1,685	1,000	-

Operating Costs	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Arrears	(23,200)	(18,732)	(17,669)	(21,104)	(21,019)
Dredging	(5,790)	(5,590)	(5,451)	(5,765)	(5,982)
Other Major Works	(2,843)	(8,938)	(6,100)	(5,354)	(6,794)
Old	(601)	-	-	-	-
Total Operating Costs	(32,433)	(33,260)	(29,220)	(32,223)	(33,796)

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Arrears	(21,206)	(17,275)	(17,669)	(20,104)	(21,019)
Dredging	(5,790)	(5,590)	(5,451)	(5,765)	(5,982)
Other Major Works	(676)	(4,595)	(4,415)	(5,354)	(6,794)
Old	(601)	-	-	-	-
Total CBIT	(28,272)	(27,460)	(27,535)	(31,223)	(33,796)
Interest Payable	(30)	-	-	-	-
Cost of Capital	-	-	-	-	-
Total EVC	(28,302)	(27,460)	(27,535)	(31,223)	(33,796)

Operating Costs	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Payroll	-	-	-	-	-
Internal Time Recharges	2,623	2,901	2,670	2,668	2,619
Staff Related Costs	133	170	226	325	406
Materials and Contract	26,566	27,143	23,478	26,370	27,658
Plant and Machinery	427	496	271	184	367
Premises and Office Costs	50	-	-	-	-
Professional Fees	2,492	2,490	2,527	2,582	2,687
Marketing	6	7	-	-	-
Other Costs	128	53	47	94	57
	32,426	33,260	29,220	32,223	33,796
Depreciation	7	-	-	-	-
Total Operating Costs	32,433	33,260	29,220	32,223	33,796

A9.3 Commentary on tables and performance

The anticipated spend on major works over the 4 year period, including fully funded schemes is £128.5m, of which 61% relates to Principal Assets in categories D & E, 18% on main line dredging and 21% on other major works for bank protection and towpath works. The £128.5m comprises £121.6m for England & Wales and £6.9m for Scotland.

Included in the total operating costs are three projects that are fully or partially funded:

- Kellingley mining subsidence phase 5 & 6
- North Staffs visitor centre carried forward
- Long horse bridge

The following table shows projects with an estimated spend of £0.5m or more that are in our current plan. The first five projects do not have a BBPI score as they relate to reservoir safety works, as indicated by the panel engineer, and must be carried out to avoid prosecution from the Environment Agency.

As we review the BBPI scoring mechanism, including business criticality factors and weightings, we may have to adjust the four year programme to ensure that the projects critical to the business are delivered first.

Major works projects over £0.5m £000	Business unit	BBPI	2007/08	2008/09	2009/10	2010/11	Total estimated cost
P5156 - Upper Foulridge Reservoir	NWT		1,100				1,100
P2408 Redbrook Reservoir	YOR		47	958			1,005
P5878 - Lower Foulridge Reservoir	NWT		30	970			1,000
P5219 Harthill Reservoir	EMS		900				900
P3362 Long Horse Bridge	EMS		790				790
P3171 Swellands Reservoir	YOR		696	9			705
P 3113 Lock 9	YOR	22,500	75	465			540
Tame Aqueduct	NWT	21,500		5	30	490	525
P5877 - Lune Aqueduct	NWT	20,600	1	39	1,460		1,500
P5877 - Embankment Lune Aqueduct South End	NWT	20,600	1	39	1,460		1,500
Marple Aqueduct	NWT	20,500		5	30	490	525
G&S Bridge 5 Patch Bridge Arrears)	SWT	20,100					900
G&S Sharpness Tidal Basin	SWT	20,000					960
G&S Sharpness Tidal Basin	SWT	20,000					560
Preston Brook Tunnel	WBC	19,760					2,450
Stalybridge Aqueduct	NWT	19,500		5	35	750	790
P2324 Black Moss	YOR	19,200	327	280			607
P/5834 Embankment 3 T-P South Of Bri 11	WMS	18,800		40	175	95	310
Embankment 57, Shebdon Embankment	WBC	18,600					650
P/5835 Embankment 2, Hollis Bridge Embankment	WMS	18,600		40	175	95	310
Lock 12, Hazleford Lock	EMS	17,900	60	540			600
RD - Embankment Chadderton	NWT	17,800			3	30	634
P/5855 Pumping Station	WMS	17,700				1,400	1,400
P4504 Lanc Detron Gate Embankment	NWT	17,700				40	800
P5657 - Aqueduct 27, Hyndburn Or (Steiners)	NWT	17,700	3	522			525
G&S Sharpness Dock	SWT	17,400					1,500
North Pier	SWT	17,300					800
RD - Offside and neaside embankments Lock 54 to 57	NWT	17,100				50	1,155
RD - Offside embankments Lock 57 to 59	NWT	17,100		2	30	478	510
PF General Wash Wall reconstruction	NWT	17,000			5	40	530
LC Glasson Lock Gates - Hydraulic/Mechanical issues	NWT	16,900			5	40	650
P4178 - Capernwray Embankment	NWT	16,800		5	35	510	550
RL- Bywash at lock 4 bank protection and reprofiling	NWT	16,600			3	30	600
P4186 Fishers Embankment 26	NWT	16,200		5	35	660	700
Vale Royal Small Lock	WBC	16,000					2,350
P/5847 Safety gates - refurbishment and repairs	WMS	15,800			47	900	947
River Trent Lock Mechanisation Works	EMS	14,400			587	391	978
Dutton Upper Horsebridge Footbridge	WBC	14,300					600
P5328 Embankment 1	YOR	13,700		75	1,267		1,342
Saltersford Small Lock	WBC	13,700					1,000
							29,758

A9.4 Asset Condition and Inspections

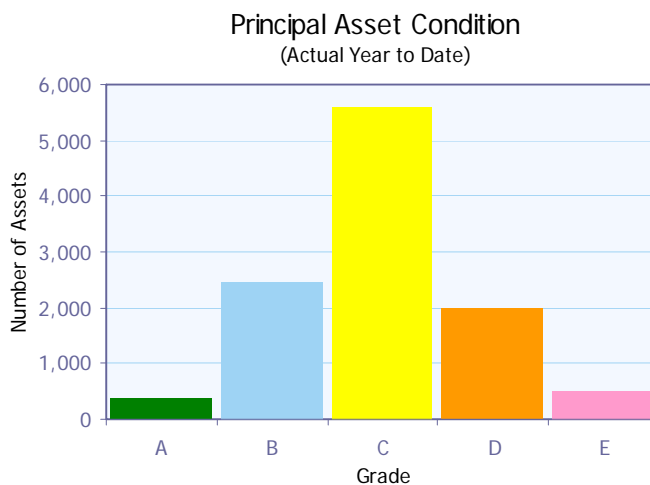
Our asset management methodology was set out in our submissions to the End to End Review. To examine the likelihood of a return of safety backlog, we need to consider both the condition of our assets and the consequence of failure. We rate the condition of our assets as: A = New; B = Good; C = Fair; D = Poor; E = Bad.

The following table shows our current asset profile and assets with a consequence of failure in category 4 & 5.

Consequence of Failure	Condition	Category 4		Category 5	
		Actual N ^o	Actual %	Actual N ^o	Actual %
All Principal Assets	D	141	1.3%	44	0.4%
	E	52	0.4%	3	0.0%
Embankments	D	23	3.1%	8	1.1%
	E	5	0.7%	2	0.3%
Culverts	D	46	2.2%	5	0.0%
	E	15	0.7%	-	-

Principal Asset Condition	Actual Year to Date		March 2007	March 2006	March 2005
	Actual N ^o	Actual %	Plan %	Actual %	Actual %
Condition grade A	380	3.5%	3.6%	3.6%	3.6%
Condition grade B	2,470	22.6%	22.9%	22.6%	22.7%
Condition grade C	5,580	51.1%	51.4%	51.0%	49.8%
Condition grade D	2,000	18.3%	17.7%	18.3%	19.2%
Condition grade E	495	4.5%	4.4%	4.5%	4.7%
	10,925	100.0%	100.0%	100.0%	100.0%

This graph shows the current distribution of the asset grades.



We carry out principal engineering inspections on our assets, these are scheduled based on the type of asset and the frequency required. All assets currently graded E in SAP with a consequence of failure 4 & 5 will be reviewed and re-graded by Technical director, head of engineering and asset manager during 2007/08. There are currently 77 assets in this category.

A9.5 BBPI scoring and consequences of failure

The BBPI scoring system was developed by the Technical Group in 2004/05 to help provide an assessment of relative business benefit and priority of undertaking some works in advance of others.

We will review the factors and weightings used in the scoring mechanism to enable us to have develop one list of all major works including dredging schemes.

The BBPI scoring system incorporates 3 factors:

- Significance of the asset to the core business - hence a lock is more significant than an accommodation bridge.

- Condition of the asset – generally a grade E asset should be repaired before a grade D asset, and therefore attracts a higher weighting.
- Business Criticality Score (BCS) - 6 'criticality' factors that contribute towards the business, with each factor having 4 levels of severity attribute, the highest scoring attribute being used for the prioritisation process. The factors, in order of weighted importance, are:
 - F Consequence of Failure of the asset - in terms of Effect on Life, Flooding, Potential Prosecution and Claims from third parties (relates to existing Consequence of Failure grade under AIP2005).
 - C Effects on Customers and Commercial relationships - a measure of the potential effect of asset failure on customers measured in terms of customer numbers, financial impact, delay and type of customer.
 - E External Impact in terms of Heritage and Environment - a measure of BW's responsibilities and image in the fields of Environment, Heritage, Duties and Image
 - B BW Business and Commercial Drivers - a measure of the cost and disruption to BW of having to accommodate the failed or decommissioned asset.
 - S Loss of Service Level - a measure of reduced service provision as a result of a poor condition asset.
 - N Effect on Neighbours - a measure of non-contractual effects on our neighbours as a result of the poor condition asset.

The maximum contributory score for each factor varies linearly, so the maximum score for factor N is only 50% of factor F. This weighting is designed to reflect the relative importance of each factor to the overall BW business.

Use of BBPI

We now have a way of corporately prioritising and analysing all our grade D and E assets in a consistent non-parochial way. All now have a BBPI score and this score has been used as the primary prioritisation factor for D&E Programme (formerly Arrears) projects. The principle being that, unless there are over-riding factors not covered by BBPI, high scoring assets will be dealt with before lower scoring assets. This principle has been adopted in agreeing the 2007 to 2012 works programme

Major Works (>£20k) projects have a calculated BCS (business criticality score), but at present this cannot be converted to a BBPI score as there are no agreed weighting factors. A method of weighting Major Works and Dredging projects is currently being developed to bring both prioritisation systems together in 2007.

A9.6 Milestones and priorities

Priorities	Milestones	Date
<ul style="list-style-type: none"> Delivery of agreed 4 year programme 	<ul style="list-style-type: none"> 90% delivery of planned programme providing level of funding remains at planned amounts. 	March 2011
<ul style="list-style-type: none"> Principal inspections 	<ul style="list-style-type: none"> 100% of planned principal inspections completed 	March 2008 and each year
<ul style="list-style-type: none"> Project budgetary control 	<ul style="list-style-type: none"> 90% of projects to be delivered within agreed budget 	April 2008 and each year (based on completed projects)
<ul style="list-style-type: none"> Post project approvals 	<ul style="list-style-type: none"> 100% completed within 3 months of project end date (interim if necessary) 	Qtrly each year
<ul style="list-style-type: none"> SAP data quality 	<ul style="list-style-type: none"> 95% projects to have good quality SAP data, in terms of value, milestones, dates etc. 	March 2008 and each year
<ul style="list-style-type: none"> Asset grades updated in SAP 	<ul style="list-style-type: none"> Asset grades updated within 1 month of project technically completed. 	Qtrly each year
	<ul style="list-style-type: none"> Development of BBPI score for all projects including dredging 	July 2007
<ul style="list-style-type: none"> BBPI score 	<ul style="list-style-type: none"> BBPi score and criticality index change process agreed 	July 2007

APPENDIX 10: RESTORATION AND EXTERNALLY FUNDED PROJECTS

A10.1 Summary of the plan

The National Restoration business comprises those large, or potentially, large canal restoration projects, which are managed centrally. At present this covers the Cotswold Canals, Droitwich Canals, Liverpool Link and Manchester Bolton and Bury Canal, together with some embryo projects such as the Northern Reaches where spend is minimal.

Externally funded projects are those schemes which are managed within the Business Units. These range from small scale works, which attract funding from sources such as local authorities and Regional Development Agencies through to the multi-million pounds Bow Back Rivers Olympics-related project managed in London.

The plan shows the concentration of the works into the first two years of the plan with only a small amount slipping into later years.

A10.2 Financial tables and KPIs

Figures in £k

Income	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
National Restoration	6,993	30,929	23,986	1,035	792
Total Income	6,993	30,929	23,986	1,035	792

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
National Restoration	(302)	(1,217)	(1,211)	(376)	(1,626)
Total CBIT	(302)	(1,217)	(1,211)	(376)	(1,626)

Cost of Capital	(488)	(491)	(491)	(491)	(491)
Total EVC	(790)	(1,708)	(1,702)	(867)	(2,117)

Operating Costs	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Payroll	972	980	963	752	720
Internal Time Recharges	101	17	45	40	40
Staff Related Costs	411	438	219	139	132
Materials and Contract	3,032	26,134	22,096	122	1,388
Plant and Machinery	0	10	10	20	20
Premises and Office Costs	101	11	11	9	9
Professional Fees	2,571	4,279	1,593	235	17
Marketing	3	188	170	2	-
Other Costs	49	43	44	46	47
	7,240	32,100	25,152	1,365	2,372
Depreciation	56	46	46	46	46
Total Operating Costs	7,296	32,146	25,198	1,411	2,418

	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Income by Key Projects					
Liverpool Canal Link	2,730	12,211	7,566	-	-
Manchester, Bolton and Bury Canal	1,239	3,993	10	-	-
Cotswold Canal	1,606	7,950	12,350	257	-
Droitwich Barge and Junction Canal	694	6,364	3,631	34	-
Other	723	410	429	744	792
Total Income	6,993	30,929	23,986	1,035	792
Contribution by Key Projects					
Liverpool Canal Link	(152)	(410)	(87)	-	-
Manchester, Bolton and Bury Canal	(51)	(48)	(49)	-	-
Cotswold Canal	(128)	(437)	(794)	(195)	(1,446)
Droitwich Barge and Junction Canal	(62)	(357)	(204)	(2)	-
Other	147	81	(32)	(133)	(134)
Total Contribution before Depreciation	(247)	(1,171)	(1,166)	(330)	(1,580)
Depreciation	(56)	(46)	(46)	(46)	(46)
Total Contribution after Depreciation (CBIT)	(302)	(1,217)	(1,211)	(376)	(1,626)

A10.3 Commentary on tables and performance

All four major restoration schemes have suffered delays or revisions in 2006/07 leading to a reduction in income received of £11.5m (latest forecast against original plan). As a result income in years 1 and 2 of the plan is higher than in the previous plan to reflect these phasing changes. The impact on contribution is minimal as expenditure profiles have been adjusted to match.

For planning purposes it has been assumed that all staff on fixed term contracts leave as the current projects complete and that there will be new work to enable remaining staff costs to be recovered except for "corporate" costs.

A10.4 Restoration risks analysis

The plan currently includes a £3m net contribution to the Cotswolds restoration, but we know that this will be insufficient to cover the scheme. Engineering and property risks associated with the project could potentially cost up to £10m. Further work to reduce or remove these is ongoing to enable a decision to be made on the future of this project.

BW has agreed a contribution to the Liverpool Link project of £658k over the first 3 years of the plan. This is to lever in additional funding of approx £2.2m from partners to offset additional costs associated with the Mann Island site. Prior to this the project had no cost to BW.

The Droitwich Canal project has been delayed on the ground, principally by land ownership issues. Detailed design work has been progressing in the meantime. There remains a funding shortfall of just over £757k, not including BW's agreed risk element of £750k. If invoked this would reduce the shortfall to just £7k.

The Manchester, Bolton & Bury canal project has also suffered from delay caused by issues with the exchange of land between Granada and Salford City Council.

A10.5 External funding overview (BU schemes)

The fundamental aim of the external funding business area is to secure funding to support 75% of steady state activities by seeking funding from public sources. There are also a number of local authorities, trusts and funding agencies that carry out work to our infrastructure by enhancing towpaths and creating new accesses suitable for all customers. Funds do not go through BW's accounts but we reap the benefits. We are developing processes to record and monitor this output.

Figures in £k

Income	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
External Funding	13,461	26,273	16,365	8,330	8,121
Total Income	13,461	26,273	16,365	8,330	8,121
CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
External Funding	(1,276)	(2,715)	(1,645)	(1,450)	(1,383)
Total CBIT	(1,276)	(2,715)	(1,645)	(1,450)	(1,383)
Total EVC	(1,276)	(2,715)	(1,645)	(1,450)	(1,383)
Operating Costs	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Payroll	734	1,139	929	957	982
Internal Time Recharges	1,078	530	449	476	396
Staff Related Costs	222	243	137	159	171
Materials and Contract	11,040	25,544	15,620	7,759	7,522
Plant and Machinery	20	-	-	-	-
Premises and Office Costs	11	13	13	13	14
Professional Fees	1,420	1,406	843	413	416
Marketing	132	81	18	3	3
Other Costs	78	32	0	0	0
Total Operating Costs	14,735	28,988	18,010	9,780	9,504
Depreciation	2	-	-	-	-
Total Operating Costs	14,737	28,988	18,010	9,780	9,504

The increase of £10m income and associated expenditure compared to 2006/07 relates to the first phase of the Bow Back River restoration project. This work includes a new lock and water control structure on Prescott Channel, together with another water control structure on Three Mills River, which will exclude the tide from the Olympic Park and restore the rivers to navigation

Over the four year plan period we will be contributing £9.1m in staff related costs and match funding towards the external funding projects delivering £56.1m of outputs. The steady state model will be refined so that core budgets are reduced to account for the funding obtained from external sources.

The targets set in this business area were

- Achieve income/cost ratio of 4:1
- Projects must deliver a minimum of 75% steady state outputs
- Projects must demonstrate an increase in visitor numbers.

	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Income by Key Projects					
Bow Back Rivers	3,001	14,392	3,073	200	200
Port Dundas	1,791	-	-	-	-
Montgomery Canal	179	926	245	747	539
Foxton	2,261	323	-	-	-
Other	6,229	10,631	13,048	7,383	7,382
Total Income	13,461	26,273	16,365	8,330	8,121
Contribution by Key Projects					
Bow Back Rivers	771	(616)	(196)	(0)	0
Port Dundas	(30)	-	-	-	-
Montgomery Canal	(93)	(56)	(57)	(55)	(47)
Foxton	(249)	(49)	-	-	-
Other	(1,673)	(1,994)	(1,392)	(1,396)	(1,336)
Total Contribution before Depreciation	(1,274)	(2,715)	(1,645)	(1,450)	(1,383)
Depreciation	(2)	-	-	-	-
Total Contribution after Depreciation (CBIT)	(1,276)	(2,715)	(1,645)	(1,450)	(1,383)

The main project for year 1 of the plan is the Bow Back Rivers, where we have secured £18m of funding and appointed design & build contractor Volker Stevin Ltd, who will be on site in April 2007. The project is due to be completed in mid-2008. This is an important project for British Waterways, both in London and nationally, giving us an opportunity to showcase our waterways before, during and after the 2012 London Olympic Games.

The table below shows some of the other schemes being pursued.

Expected income £000	BU	2007/08	2008/09	2009/10	2010/11
Amenity improvements Fossdyke & witham	EMS	210			
Castle footbridge towpath improvements	EMS	225	185		
As yet unidentified	EMS	550	485	350	
Stort improvements	LON	370			
Hale wharf bridge	LON	2,325			
West London TFL	LON	100	100	100	100
Green corridors	LON	250	500	500	500
Bow flyover	LON	1,100	400		
Brunel bridge	LON	50	3,450		
River transport improvements	LON	140	1,500	1,500	1,500
Chorley to Adlington towpath	NWT	120	250		
Sustrans lowlands access improvements	SCO	250	250	250	250
Pineham north towpath improvements	SET	150			
Taylor's yard	WBC	125	2,004		
Montgomery Powys canal tourism	WBC	450	130		
Pontcysllte Aqueduct	WBC		275		
City waterside regeneration	WBC				
Weaver way routeway	WBC	130	230	240	
Stourport basin	WMS	700			
Pier Street bridge	WMS	240			
Wolverhampton & Staffs canal corridor	WMS	360	100		
As yet unidentified	WMS		750	950	1,050
As yet unidentified	YOR		525	550	570
Total		7,845	11,134	4,440	3,970

	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Income by Waterway Unit					
East Midlands	454	622	315	475	500
London	4,561	18,979	9,323	2,600	2,600
North West	303	550	965	1,145	1,270
Scotland	2,491	250	250	250	250
South East	2,560	629	75	70	20
South West	46	45	150	200	220
Wales and Border Counties	570	2,744	3,903	2,086	1,639
West Midlands	2,461	1,895	860	950	1,050
Yorkshire	15	560	525	554	572
Total Income	13,461	26,273	16,365	8,330	8,121
CBIT by Waterway Unit					
East Midlands	(63)	(166)	(122)	(127)	(105)
London	263	(966)	(538)	(346)	(350)
North West	(115)	(173)	(122)	(126)	(129)
Scotland	(71)	(198)	(205)	(212)	(219)
South East	(328)	(178)	(163)	(166)	(120)
South West	(54)	(36)	(27)	(20)	(15)
Wales and Border Counties	(249)	(159)	(148)	(136)	(134)
West Midlands	(540)	(697)	(199)	(204)	(209)
Yorkshire	(118)	(142)	(120)	(113)	(103)
Total CBIT	(1,276)	(2,715)	(1,645)	(1,450)	(1,383)

Net cost (CBIT) per business unit is broadly around £0.2m per unit except in London where the income generated is greater but well in excess of the 4:1 ratio.

A10.6 Milestones and priorities

A10.6.1 Restoration

Priorities	Milestones	Year 1
Manchester, Bolton & Bury		
• Delivery of MBB Phase 1	• Commence main construction works	Qtr 1 2007/08
• Progress MBB Phase 2	• Agree delivery timescale for Phase 2 with URC and local authority	Qtr 3 2007/08
Liverpool Link		
• Delivery of Liverpool Link	• Commence Central Docks contract	Qtr 2 2007/08
Northern Reaches		
• Progress Northern Reaches of Lancaster Canal	• Confirm development option for Kendal Canal Head with local authority and RDA	Qtr 4 2007/08
Cotswolds Phase 1A		
• Complete funding contracts	• HLF contract signed	Qtr 4 2006/07
• GCC land transfer	• On line land (canal)	Qtr 4 2006/07
• Construction commences	• Works Package 1 let	Qtr 4 2006/07
• Risk management	• Risk profile approved	Qtr 1 2007/08
• GCC land transfer	• Dowry land	Qtr 1 2007/08

•	• EIA completed	Qtr 2 2007/08
• Planning context changed	• AAP submitted to SoS by Stroud DC	Qtr 2 2007/08
• Second major planning application	• Capel Mill	Qtr 3 2007/08
Cotswolds Phase 1B		
• Funding application	• Big Lottery application submitted	Qtr 1 2007/08
	• Big Lottery response	Qtr 3 2007/08
Droitwich Canals		
• Construction commences	• Salwarpe planning application submitted	Qtr 4 2006/07
• Risk management	• Framework contract signed	Qtr 2 2007/08
	• Reedbed contract let	Qtr 2 2007/08
	• Scheme Planning Application submitted	Qtr 1 2007/08
	• New Junction Canal contract let	Qtr 3 2007/08

Priorities	Milestones	Years 2,3,4
• Delivery of MBB Phase 1	• Open to navigation	2008/09
• Delivery of Liverpool Link	• Open to Navigation	2009/10
• Progress Northern Reaches of Lancaster Canal	• Submit planning application for Kendal Canal Head development	2009/10
• Cotswolds Phase 1A	• Construction Complete	2008/09
• Droitwich Canals	• Construction Complete	2008/09

A10.6.2 External funding

Priorities	Milestones	Date
Montgomery Canal		
• Delivery of the projects already under way	• Completion of channel works to Redwith Bridge • Extension to Aston Reserve	Qtr 2 2007/08 Qtr 3 2007/08
Bow Back Rivers		
• Prescott Lock and Water Control Structures	• Water Quality Modelling Complete • Funding Agreements Signed • Quarterly Stakeholder Meetings & ongoing communications activity • Land Drainage Consent Received • Design Complete • Tidal Lock Out Achieved • Lock and Water Control Structures	Qtr 1 2007/08 Qtr 1 2007/08 Quarterly Qtr 1 2007/08

	<ul style="list-style-type: none"> Fully Operational 3 Mills Boats Return to Moorings 	
<ul style="list-style-type: none"> City Mill Lock Mechanisation 	<ul style="list-style-type: none"> Brief Prepared Funding Secured Complete Mechanisation 	<p>Qtr 1 2007/08</p> <p>Qtr 2 2007/08</p> <p>Qtr 1 2008/09</p>
<ul style="list-style-type: none"> Carpenters Road Lock 	<ul style="list-style-type: none"> Performance Parameters Agreed Funding Secured Quarterly Stakeholder Meetings Land Drainage Consent Received Design Complete Tidal Lock Out Achieved Lock and Water Control Structures Fully Operational 3 Mills Boats Return to Moorings 	<p>Qtr 1 2007/08</p> <p>Qtr 2 2007/08</p> <p>Quarterly</p> <p>Qtr 1 2007/08</p> <p>Qtr 2 2007/08</p> <p>Qtr 3 2007/08</p> <p>Qtr 2 2008/09</p> <p>Qtr 2 2008/09</p>
<ul style="list-style-type: none"> Montgomery Canal 	<ul style="list-style-type: none"> Crickheath Wharf Redwith to Crickheath Vyrnwy Aqueduct 	<p>2008/09</p> <p>2009/10</p> <p>2010/11</p>
<ul style="list-style-type: none"> Bow Back Rivers 	<ul style="list-style-type: none"> Prescott Lock complete Carpenters Road Lock Phase 1 complete City Mill Lock Mechanisation Complete 	<p>2008/09</p> <p>2008/09</p> <p>2008/09</p>
<ul style="list-style-type: none"> Agreed project outputs delivered Volunteers Value of Steady state works not passing through BW accounts 	<ul style="list-style-type: none"> Funding achieves 75% of steady state outputs Project delivers increased visitor numbers Declining BW contribution Centrally maintained list Centrally maintained list developed and reported 	<p>End of each project</p> <p>April 2007</p> <p>March 2008</p>

APPENDIX 11: WATERWAY UNIT MANAGEMENT COSTS

A11.1 Summary of the plan

The costs incurred in managing the business units has been amalgamated into this new business area, and includes the General Manager and team, finance and administration support, GIS and planner. It also includes the operating costs of the main office accommodation for each business unit.

In order to target efficiencies and to identify more processes for transfer to the Shared Service Centre in Leeds, all administrative support resources have been brought together with Finance and business units have been targeted with reducing the headcount and salary costs in this area over the plan period.

A11.2 Financial tables and KPIs

Figures in £k

CBIT by Waterway Unit	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
East Midlands	(448)	(758)	(752)	(781)	(796)
London	(1,866)	(2,483)	(2,972)	(2,263)	(2,285)
North West	(640)	(899)	(916)	(933)	(958)
Scotland	(1,447)	(2,032)	(2,077)	(2,473)	(2,129)
South East	(844)	(944)	(959)	(960)	(982)
South West	(634)	(1,082)	(951)	(943)	(958)
Wales and Border Counties	(694)	(1,016)	(1,017)	(990)	(978)
West Midlands	(1,422)	(1,455)	(1,430)	(1,467)	(1,474)
Yorkshire	(416)	(898)	(926)	(947)	(971)
Total CBIT	(8,412)	(11,564)	(12,000)	(11,755)	(11,532)
Gains/(Losses) on Disposal	(18)	-	-	-	-
Cost of Capital	(229)	(202)	(222)	(213)	(212)
Total EVC	(8,659)	(11,765)	(12,222)	(11,968)	(11,744)

Operating Costs	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Payroll	3,898	6,607	6,697	6,817	6,972
Internal Time Recharges	143	265	267	266	265
Staff Related Costs	581	692	612	621	629
Materials and Contract	371	235	250	516	147
Plant and Machinery	111	83	84	70	58
Premises and Office Costs	2,827	2,688	2,885	2,401	2,406
Professional Fees	318	312	347	315	315
Marketing	210	469	461	463	465
Other Costs	(80)	171	231	288	278
Total Operating Costs	8,379	11,522	11,834	11,757	11,533
Depreciation	370	321	446	278	279
Total Operating Costs	8,749	11,843	12,280	12,035	11,812

A11.3 Commentary on efficiency and issues

The increase of £3m on 2006/07 figures relates to the movement of posts and costs to this business area, these costs are not increases but would have been included in other business areas. This has enabled a more consistent approach to resources required.

The main costs are salaries which make up 56% of the cost and premises 23% of the total cost. Both these area are targeted for efficiency over the period of the plan by

- Reducing the administration costs by moving processing tasks to Shared Services in Leeds
- Continuing with the new ways of working programme for all offices
- Reducing staff related costs by using video conferencing facilities and reducing expenses and targeting training requirements

Marketing costs have been limited to £20k per business unit except for London and Scotland.

A11.4 Milestones and priorities

Priorities	Milestones	Date
<ul style="list-style-type: none"> • Efficiency 	<ul style="list-style-type: none"> • Full adoption of new ways of working for all units 	Sept 2008
	<ul style="list-style-type: none"> • 20% reduction in finance /administration 	March 2008
<ul style="list-style-type: none"> • Data quality • GIS 	<ul style="list-style-type: none"> • Waterway unit health check to include data quality 	March 2008
	<ul style="list-style-type: none"> • Agree GIS development programme for the 4 year plan period 	March 2007
<ul style="list-style-type: none"> • Planning opportunities 	<ul style="list-style-type: none"> • £2.5m contributions to BW for S106 agreements 	March 2008
	<ul style="list-style-type: none"> • 100 pre-planning applications consultant agreements 	

APPENDIX 12: HEADQUARTERS AND CENTRAL SERVICES

A12.1 Summary of the plan

The Central business plan results from a comprehensive Zero Based Review (ZBR) of all activities within the head office functions, with the aim of significantly reducing overheads. All departments have analysed their cost base and assessed the resources needed to deliver their required outputs. Teams have been streamlined to efficiently resource only those activities which contribute directly to the achievement of BW's vision.

Objectives of HQ Corporate Departments include:

- providing direction and support to the business to generate progress towards our vision
- ensuring legal and statutory compliance across all activities
- ensuring that our customer service standards are achieved
- promoting the waterways to the public to increase customer visits and water-related activity
- providing relevant and timely information to the Board, Defra and Shareholder Executive as required
- ensuring our internal business systems are efficient and fit for purpose
- processing business transactions through the Shared Service Centre.

Payroll and other staff related costs represent the largest area of expenditure for Central teams and this was the primary focus for the ZBR. In total, 42 non-essential posts were identified out of a total of 320 across all teams and staffing has been reduced through a targeted voluntary redundancy programme. This has created significant ongoing annual savings, with year 1 CBIT of £28.4m representing a 9.3% improvement on the original plan for the prior year.

The full impact of the savings is realised in 2008/09, with the plan being relatively flat thereafter. Further efficiency savings will be sought and quantified with the aim of continually improving future results. Some of these have already been identified, but not yet accurately quantified for inclusion in the plan.

A12.2 Financial tables and KPIs

Income	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Fearns Wharf rents	0.00	0.10	0.21	0.21	0.21
Boat safety	0.31	0.44	0.45	0.45	0.44
Sponsorship	0.00	0.45	0.55	0.30	0.30
Aina recharges	0.08	0.08	0.08	0.08	0.08
Economic Development	0.22	0.18	0.10	0.10	0.10
Workshops	0.05	0.02	0.02	0.02	0.02
Other recharges	0.13	0.19	0.19	0.21	0.18
Total Corporate HQ Departments	0.79	1.46	1.59	1.36	1.33

Figures in £k

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Finance	(9,288)	(10,544)	(9,678)	(10,588)	(10,653)
Human Resources	(2,841)	(2,232)	(1,985)	(2,031)	(2,063)
Legal	(1,470)	(1,224)	(1,197)	(1,239)	(1,251)
Technical	(5,966)	(4,864)	(4,981)	(4,826)	(4,992)
Commercial	(59)	143	413	194	192
Marketing and Customer Services	(4,085)	(4,657)	(4,556)	(4,569)	(4,624)
Executive	(2,739)	(2,378)	(2,435)	(2,497)	(2,560)
Economic Development	(100)	(129)	(131)	(135)	(138)
Reorganisation Costs / Targeted Payroll Savings	(5,000)	-	235	473	716
Workshops	201	20	20	20	20
Pension Deficit Funding	(2,404)	(2,498)	(3,955)	(4,115)	(4,287)
Total CBIT	(33,751)	(28,363)	(28,251)	(29,313)	(29,640)
Interest Payable	(1,794)	(1,345)	(1,208)	(1,116)	(1,038)
Interest Receivable	2,495	1,450	1,425	1,150	1,125
Gains/(Losses) on Disposal	780	-	-	-	-
Unrealised Gains	-	-	-	-	-
Cost of Capital	(1,188)	(743)	(722)	(704)	(694)
Total EVC	(33,458)	(29,001)	(28,756)	(29,983)	(30,247)

Operating Costs	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Payroll	14,532	13,534	13,119	13,194	13,310
Internal Time Recharges	(853)	(1,575)	(1,406)	(1,603)	(1,753)
Staff Related Costs	6,904	2,195	1,885	1,915	1,908
Materials and Contract	(64)	303	240	221	222
Plant and Machinery	151	84	68	69	70
Premises and Office Costs	1,680	2,904	2,616	3,393	3,405
Professional Fees	7,148	6,989	6,617	6,707	6,823
Marketing	1,271	1,360	1,302	1,297	1,292
Other Costs	2,235	2,696	4,093	4,250	4,484
	33,003	28,490	28,533	29,441	29,761
Depreciation	1,538	1,333	1,310	1,218	1,215
Total Operating Costs	34,541	29,823	29,843	30,660	30,977

Key Performance Indicators	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Total payroll cost (£m)	14.0	13.4	13.2	13.5	13.8
Headcount	320	278	274	271	271
Cost per head (£)	(105)	(102)	(104)	(111)	(113)
Office space (sq m)	7,206	7,206	2,450	2,450	2,450
Office space per head (sq m)	22.5	25.9	8.9	9.0	9.0
Total business operating costs (£m)	210.7	265.5	268.0	271.8	294.6
HQ CBIT as % of total operating costs	16.0%	10.7%	10.6%	11.0%	10.4%

Headcount by Department	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Chief Executive and Directors	13	8	8	8	8
Finance	83	76	74	73	73
Human Resources	39	26	26	26	26
Legal	15	13	12	12	12
Technical	104	101	101	101	101
Commercial	1	1	1	1	1
Marketing and Customer Service	32	27	26	26	26
Workshops	39	32	32	32	32
Total Corporate HQ Departments	326	284	280	279	279

Headcount and payroll cost reductions have been achieved through the ZBR and these areas will be closely controlled to ensure there is no erosion of the resulting savings across the plan period.

The new rented premises in Watford are expected to offer approximately 720 sq m of office space, a saving of over 2,000 sq m on the occupied space within Willow Grange. In addition, one floor of Fearn's Wharf in Leeds will be vacated for letting to a third party.

A12.2.1 Financial commentary

Income

Income streams totalling £1.2m to £1.4m across the plan period are included within the Head Office plan. Up to £0.5m per annum is expected to be achieved through sponsorship agreements, such as large and small-scale advertising, vending machines and automated teller machines at destinations and other high-footfall sites. A further £0.4m is associated with the Boat Safety Scheme, which for the first time will achieve a break-even position by 2009/10.

Cost recoveries account for £0.3m of annual income, primarily from European funded projects being co-ordinated by the Economic and Social Development team, but also in respect of AINA and the Workshops.

Finally, income is expected to be generated for the first time from the Fearn's Wharf office in Leeds, where a floor has been vacated for letting. £0.1m is included for 2007/08 and £0.2m thereafter.

Underlying annual payroll savings of £2.3m have been achieved within the first two years of this plan. £1.7m will be saved due to a reduction in headcount of 42 posts and several positions being filled with staff more junior than their predecessors. In addition, further business processes will be moved into the Shared Service Centre, such as Craft Licensing, which will generate at least 30% cost savings.

More effective and widespread use of timesheets will result in £0.6m more staff time being charged to projects in future and therefore funded by the relevant business units.

Premises, office costs and fees will reduce by up to £0.5m per annum from 2008/09 as a result of the relocation of the Watford-based functions out of Willow Grange and into rented premises. However, the plan assumes that business rates of £0.8m will be payable from 2009/10 onwards.

Professional fees have been reduced across most teams and this area will be carefully managed to minimise unplanned overspends. Planned professional fees include:

- Engineering and consultants fees, £0.5m, for Technical areas including Omnibus contract delivery, Water Management, Safety and Floating Plant teams.
- Legal fees, £0.2m
- Finance and audit fees, £0.4m
- Sponsorship project fees, £0.2m
- Marketing and Customer Service Transformation, £0.8m.

Other costs represent the pension deficit payments, which are based on the actuarial assumptions applied in the latest review of our pension fund.

A12.2.2 Finance Department

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Finance Canal Rates and PAYE Settlements	705	(217)	(217)	(1,009)	(1,009)
Corporate Finance (FCs and HQ FMs)	(1,219)	(975)	(926)	(954)	(982)
ICT					
Outsourcing	(4,407)	(4,239)	(4,318)	(4,493)	(4,458)
Projects	(783)	(793)	(765)	(717)	(621)
Craft Licensing	(506)	(670)	(370)	(380)	(388)
Routine	(1,147)	(1,375)	(1,295)	(1,231)	(1,359)
SSC	(1,492)	(2,275)	(1,788)	(1,804)	(1,836)
Procurement	(439)	-	-	-	-
Total CBIT	(9,288)	(10,544)	(9,678)	(10,588)	(10,653)

The underlying cost of the Finance function will reduce by £1m per annum, primarily due to staff savings. Total CBIT appears to rise in year 1 due to the inclusion of one-off items in the prior year, including the refund of over £0.8m of business rates and a £0.2m PAYE settlement. In addition, SAP project costs of £0.4m have been deferred from 2006/07 to 2007/08.

Staff savings have been achieved within Group Finance (£0.2m), ICT (£0.2m), the Shared Service Centre (£0.1m) and by the reorganisation and transfer of the Procurement. Further savings will be achieved by the transfer of Craft Licensing functions into the SSC (£0.2m and £0.1m respectively). and savings of £160k have been achieved by reducing or capping the cost of professional fees and outsourced suppliers.

The full effect of these payroll and staff related cost savings is masked by the transfer into the ICT department of 3 SAP trainers, 1 GIS technician and 2 staff from the SW BU.

A £0.3m reduction in staff costs has been achieved through the reorganisation of the HR function to a Leeds base with regional support staff. This has saved 5 posts, of which 2 were senior management positions.

£100k has been included in year 1 of the plan to cover the costs of vacating the Willow Grange office and relocating to a new site. Thereafter, facilities costs reduce by £0.5m per annum, reflecting the expected reduction in general running costs and building maintenance costs, as well as a 50% reduction in facilities staffing. There will also be a £0.4m reduction in the cost of capital, as a result of moving from owned to rented premises.

A12.2.3 Human Resources

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Human Resources Group	(1,825)	(1,519)	(1,567)	(1,611)	(1,641)
Facilities Management	(1,017)	(713)	(418)	(420)	(422)
Total CBIT	(2,841)	(2,232)	(1,985)	(2,031)	(2,063)

Staff savings of £250k in year 1 result from the transfer of the SAP training team into the ICT department and internal communications into Marketing and Customer Services. Savings in premises costs will be realised in year 2, following the move out of Willow Grange, when the facilities team will be reduced.

A12.2.4 Legal Department

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Legal Group	-	-	-	-	-
Legal Litigation	-	-	-	-	-
Legal Administration	(784)	(756)	(718)	(742)	(756)
Secretariat	(90)	-	-	-	-
Internal Audit	(380)	(412)	(420)	(436)	(430)
Waterways Ombudsman	(57)	(56)	(59)	(62)	(65)
IWAAC	(159)	-	-	-	-
Total CBIT	(1,470)	(1,224)	(1,197)	(1,239)	(1,251)

Staff savings of £0.1m per annum have been achieved by saving 2 non-qualified support staff posts and by replacing 2 principal lawyers with more junior staff. Also, a further senior solicitor has been replaced by a para-legal. This is offset in year 1 by additional temporary staff costs of £40k, due to the possible long term absence of one employee.

Savings in professional fees are due to the fact that IWAAC is now directly funded by Defra.

A12.2.5 Technical Department

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Technical Group	47	22	90	88	86
Technical Services	(1,832)	(1,275)	(1,345)	(1,348)	(1,399)
Safety and Standards	(586)	(364)	(285)	(280)	(275)
Asset Management	(339)	(491)	(496)	(501)	(506)
Water Operations	(2,535)	(2,688)	(2,771)	(2,822)	(2,871)
Freight Development	(183)	-	-	-	-
Special Projects	(531)	(219)	(210)	(159)	(372)
Heritage	(65)	(65)	(66)	(68)	(69)
Major Works	58	216	102	265	414
Total CBIT	(5,966)	(4,864)	(4,981)	(4,826)	(4,992)

Payroll and other staff-related cost savings of £0.5m will be achieved in year 1 of the plan, through the saving of 15 posts and 5 apprentice positions, whose contracts expire in September 2007. One post in the Boat Safety Scheme team will be lost and the remaining 5 will be self-funding. Environmental posts will be reduced by 4 and 1 safety post will transfer to HR. The Special Projects Team will be disbanded, one retiring member of the floating plant team will not be replaced and there will be one redundancy from the M&E team. An administrator previously recharged from the Executive budget will move to the Water Management Team.

In addition, staff will be required to allocate their time to the projects that they are helping to deliver. Their costs have been planned on these projects and will be funded as an internal recharge by the relevant BU. This will result in an additional £0.3m cost recovery for the Technical Department.

Professional fees not allocated to specific projects have been removed from the plan, resulting in a saving of up to £0.3m per annum. Unforeseen events may therefore require additional fees to be funded from contingency. Such cases will be assessed as the need arises.

A12.2.6 Commercial Department

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Commercial Group	-	-	-	-	-
Commercial Administration	(57)	(62)	(63)	(65)	(66)
New Business Development	(1)	-	-	-	-
Sponsorship of BW Assets and Events	-	205	476	258	258
Total CBIT	(59)	143	413	194	192

Apart from shared administrative support for the Commercial and Finance Directors, this plan includes the speculative income and associated costs arising from new sponsorship agreements.

A12.2.7 Marketing and Customer Services Department

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Marketing and Customer Services Group	(6)	(120)	(120)	(120)	(120)
Communications Administration	(241)	(38)	(3)	32	26
Marketing Services	(324)	(275)	(278)	(282)	(286)
Customer Services	(87)	(156)	(154)	(156)	(158)
External Relations	(273)	(353)	(354)	(358)	(363)
Marketing	(253)	(251)	(248)	(253)	(255)
Marketing Campaigns	-	(647)	(647)	(647)	(647)
Market Research	(391)	(423)	(420)	(422)	(424)
WOW	(183)	(192)	(196)	(198)	(201)
Leisure Development	(640)	(435)	(388)	(391)	(393)
Interpretation	-	(69)	(70)	(72)	(73)
Waterscape	(295)	(333)	(307)	(311)	(315)
Corporate Design	(142)	(95)	(95)	(95)	(95)
The Waterways Trust	(801)	(812)	(837)	(862)	(888)
Central Marinas Team	(446)	(458)	(440)	(434)	(432)
Total CBIT	(4,085)	(4,657)	(4,556)	(4,569)	(4,624)

Nine members of staff will have left the department between the start of 2006/07 and the end of the plan period, four having already gone from the Waterscape and external relations teams. Year 1 assumes that a further 3 marketing and customer service posts will be saved, with another customer service post being saved in 2008/09 and an external relations post in 2009/10. This equates to real savings of £0.2m per annum on the 2006/07 forecast.

Professional fees increase by £0.5m from the current year, primarily due to the Customer Service Transformation project.

Payroll costs for the New Marinas Unit increases in year 1 as a result of the recruitment of a Technical Manager.

A12.2.8 Executive

CBIT	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Managing Director - South	(288)	-	-	-	-
Administration - South	(59)	-	-	-	-
Managing Director - North	(182)	-	-	-	-
Executive Group	(3)	-	-	-	-
Chairman and Board Members	(265)	(262)	(268)	(274)	(280)
Chief Executive and Directors	(1,903)	(2,043)	(2,091)	(2,144)	(2,198)
Association of Inland Navigation Authorities	(36)	(72)	(76)	(79)	(82)
Total CBIT	(2,739)	(2,378)	(2,435)	(2,497)	(2,560)

CBIT reduces by almost £0.4m in 2007/08 due to the removal of two director posts and their associated support costs. £0.2m of additional costs are included in 2007/08 for consultancy work regarding BW's status review.

A12.2.9 Economic Development

This team deals with market research and external funding support for the Waterway Units, particularly relating to European Interreg funding.

A12.2.10 Reorganisation costs

£5m was set aside in 2006/07 to cover the cost of the business re-organisation, comprising primarily redundancy payments and costs associated with staff transfers. A further 1.5% of payroll efficiency savings are targeted within Central functions in each of the plan years. This target is shown clearly in this table, rather than being allocated across teams, as plans for achieving the saving will need to be developed during the course of 2007/08. When specific savings have been identified, they will be accounted for in the relevant department.

A12.2.11 Workshops

The Workshops plan shows a break even position on the manufacture and installation of lock gates across our waterway units.

A target of £20k profit on work for third parties has been set for each year of the plan.

A12.3 **Commentary on efficiency and issues**

There is limited flexibility within the Corporate HQ Departments to enable a wide variety of efficiency measures to be identified, as the vast majority of expenditure comprises salaries and premises costs. However, significant staff savings have been achieved through the ZBR of Central functions and future plans will be compiled via a similar process to ensure that no unnecessary costs are carried forward.

The ZBR resulted in the loss of 42 posts by 2007/08, which were considered non-essential to the business, the associated activities either being covered by other positions or no longer being pursued. Staffing and vacancy levels will continue to be closely monitored and controlled to ensure the savings are realised throughout the plan and further savings identified where possible. In particular it will be important to carefully assess the need to directly replace any leavers and to ensure that all activities are resourced efficiently.

Further payroll savings may be inherent in the plan as few assumed vacancies have been included. Periods of vacancy following staff leaving may therefore result in cost reductions, depending on whether the post is filled and how much this will cost.

The £5m reorganisation budget in 2006/07 may not be fully expended. Any savings can be carried forward into the plan period.

The move out of Willow Grange will result in staff adopting 'New Ways of Working' as already implemented by several other business units. In practice, this will mean a greater use of hot-desking, better document management and space utilisation, all of which should generate savings that have not yet been quantified in the plan. As well as better productivity, savings in utilities and office supplies should be generated. However, as yet unplanned one-off costs associated with the move may be required to generate the ongoing savings.

Further efficiency savings through business process improvement will be investigated, such as better management of company cars, mobile phones and hand-held electronic devices.

A12.4 Milestones and priorities

Priorities	Milestones	Date
Implement more efficient business processes	Complete the reorganisation of teams and communicate changes in responsibilities	Jun 2007
	Relocate Head Office functions into new rented accommodation	March 2008
	Let Fearn's Wharf office space	Jun 2007
	Agree recommended options for other operational HQ buildings	Sept 2007
	Transfer Craft licensing to SSC	Nov 2007
	Identify further business processes to transfer to SSC	Jun 2007
	Implement further efficiency measures, eg mobile phones, company cars	Sept 2007
	Establish a customer contact centre	Dec 2007
	Complete the technical upgrade of the SAP systems	March 2008
	Implement document management system	Staged implementation 2007/08 to 2010/11
Improve customer satisfaction	Complete Customer Service Transformation training	March 2008
	Monitor and report on improvements actioned locally	Quarterly
	Achieve 6,000 new marina berths through the work of the NMU	March 2011
Effective reporting	New high level Board report meets Board members' requirements.	From March 2007

APPENDIX 13: BWML

A13.1 Summary of the plan

BWML has established itself as a leading marina operator in its three years of existence.

The business will aim to maximise its profitability by providing quality facilities and service to its customers at the appropriate market rates. It 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 all its existing marina sites with a view to creating wider leisure and commercial opportunities allied to the moorings market. It will also assess potential new marina sites for such allied opportunities. Such wider activities will become more relevant throughout the plan period as BWML is close to maximising total mooring facilities at all of its existing sites.

The key focus of the BWML strategy over the duration of this business plan will be:

- Optimising the profitability of each of its existing marina portfolio.
- Successful integration of 4 new sites currently identified.
- Seeking to develop and acquire more marinas, with a target of two new sites per annum.
- The continued development of a cohesive and integrated group management structure to optimise group performance following a reorganisation in the early months of the plan period. To centralise some of the local administrative functions leading to efficiency gains as part of the reorganisation process.
- To provide a safe environment for customers and employees, and to be recognised within the industry for health and safety quality.
- To continually re-assess the procurement effort of the group to maximise buying efficiencies.
- To assess and identify marina assets which have been developed to their fullest profit making extent by BWML and offer these for sale to the marina industry. However, no assumptions are included within this plan for any site disposal

This plan has been compiled on the assumption that at 31st March 2007 British Waterways Marinas Limited existing portfolio of marinas will be: Apsley, Bath, Galgate, Glasson, Gloucester, Goytre Wharf, Hull, Kings, Lemonroyd, Limehouse, Packet Boat, Poplar, Priory, Ripon, Sawley, White Bear.

The plan assumes that the following four identified sites are integrated: Whixall acquired (April 2007), Diglis Basin transferred from BW (April 2007), new development site at Bolesworth Estate in Cheshire (2008), Hungerford acquired (2008). Other opportunities are being pursued.

A13.2 Financial tables and KPIs

Figures in £k

Profit and Loss	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Income					
Moorings	2,878	3,760	4,405	4,992	5,572
Management Fees	343	294	314	324	334
Boat Sales	528	410	426	442	459
Brokerage	403	395	423	451	480
Chandlery	1,251	1,186	1,239	1,337	1,436
Caravans	133	145	188	231	239
Boat Yard Operations	270	291	242	253	265
Property	61	82	144	149	151
Other Income	191	225	230	234	239
Total Income	6,057	6,788	7,609	8,413	9,174
Cost of Goods Sold					
Boat Sales	470	363	377	392	407
Chandlery	870	825	859	927	995
Boat Yard Operations	70	82	57	60	63
Total Cost of Goods Sold	1,411	1,269	1,294	1,379	1,465
Total Sales Margin	4,647	5,519	6,315	7,034	7,709
Costs Payable to BW					
Service Level Agreement	104	67	69	71	73
Rents Payable	538	609	665	755	823
Total Costs Payable to BW	642	677	734	825	895
Operating Costs					
Staff Costs	2,109	2,083	2,208	2,269	2,342
Maintenance Costs	502	642	698	875	1,044
Rates Payable	102	192	233	240	248
Rents Payable to Third Parties	30	57	120	187	190
Utilities and Occupancy Costs	361	391	426	447	460
Office and Administration Costs	161	171	177	208	220
Marketing Costs	89	125	132	136	140
Insurance	85	87	91	95	100
Finance Charges	40	41	41	42	42
Total Operating Costs	3,478	3,789	4,127	4,499	4,787
CBITDA	527	1,053	1,454	1,710	2,027
Depreciation	(143)	(233)	(363)	(407)	(423)
Amortisation	-	-	-	-	-
CBIT	384	820	1,091	1,303	1,605
Interest Receivable	18	-	-	-	-
CBT	401	820	1,091	1,303	1,605

The table below identifies the expected development and acquisition of new mooring berths within BWML over the plan period and the projected occupancy of those berths

		Year to 31/03/2007	Year to 31/03/2008	Year to 31/03/2009	Year to 31/03/2010	Year to 31/03/2011
Consolidated 20 Sites	At 1st April	2295	2437	2825	3165	3334
	Acquired	0	248	0	0	0
	Developed	142	140	340	169	100
	at 31st March	2437	2825	3165	3334	3434
Existing Moorings 16 Sites	At 1st April	2295	2437	2523	2623	2673
	Acquired	0	0	0	0	0
	Developed	142	86	100	50	0
	at 31st March	2437	2523	2623	2673	2673
Acquired and Developed 4 identified sites	At 1st April	0	0	302	542	661
	Acquired	0	248	0	0	0
	Developed	0	54	240	119	100
	at 31st March	0	302	542	661	761

The existing sites will be reconfigured to provide an additional 236 berths (nearly 10% expansion) over the plan period. New acquisitions and developments will add a further 761 berths so that by 31 March 2011 BWML will be managing 3,434 berths compared to 2,437 at 31 March 2007.

		Year to 31/03/2007	Year to 31/03/2008	Year to 31/03/2009	Year to 31/03/2010	Year to 31/03/2011
Consolidated 20 Sites	Berths Available	2437	2825	3165	3334	3434
	Berth Occupation Planned	2248	2518	2776	3015	3226
	Percentage Occupation	92%	89%	88%	90%	94%
Existing Moorings 16 Sites	Berths Available	2437	2523	2623	2673	2673
	Berth Occupation Planned	2248	2300	2387	2447	2499
	Percentage Occupation	92%	91%	91%	92%	93%
Acquired and Developed 4 identified sites	Berths Available	0	302	542	661	761
	Berth Occupation Planned	0	218	389	568	727
	Percentage Occupation	0%	72%	72%	86%	96%

Occupancy across BWML is high and is projected to increase from 92% now to 94% by March 2011. The plan makes assumptions on the fill rate of new marinas acquired and developed which reduces the occupancy rate for a period.

BWML project that the average mooring fee per annum will increase from £1352 for the year ending 31st March 2007 to £1787 in the year ended 31st March 2011, an increase of 32%. The price increases are expected to be greatest in the first two years of the plan in line with high demand for berths but then reduce to nearer inflation as the effects of new marina developments (stimulated by NMU activity) and reduced new boat sales increase supply and reduce demand respectively.

Marina

Returns Planned for Years Ended 31st March

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Apsley	560%	605%	627%	645%
Bath	8%	13%	16%	15%
Galgate	10%	6%	5%	5%
Hull	20%	29%	19%	20%
Kings	51%	20%	20%	18%
Packet Boat	68%	85%	88%	89%
Priory	16%	17%	16%	15%
Ripon	8%	10%	13%	13%
Sawley	59%	65%	65%	66%
White Bear	-1%	3%	6%	6%
Limehouse	410%	110%	67%	65%
Poplar	209%	231%	245%	259%
Lemonroyd	14%	29%	34%	36%
Goytre	2%	5%	4%	-1%
Gloucester	26%	32%	43%	44%
Glasson	4%	7%	10%	15%
Diglis	-3%	2%	12%	19%
Whixall	6%	8%	9%	10%
Cheshire	0%	-9%	0%	6%
Hungerford	0%	-4%	-2%	3%

The poorest marina performers are Galgate, Goytre and White Bear, all of which are being closely reviewed by BWML to see if they can be improved or marked for sale.

Capital expenditure required by BWML (mostly funded by BW equity investment) to achieve the business plan projections are £3.6m; £2.4m; £0.6m and £0.2m respectively. The largest components of this expenditure are £1.0m to install new moorings at Glasson; £0.4m to reconfigure Whixhall marina moorings; £1.5m to acquire Hungerford and £1.5m to develop Cheshire.

A13.3 Commentary on tables and performance

The profits from BWML are projected to increase from £0.8m to £1.6m over the plan period (after payment of rent to BW of £0.6m rising to £0.7m). This generates return on capital employed as set out in the table below.

	<u>2007/8</u>	<u>2008/9</u>	<u>2009/10</u>	<u>2010/11</u>
<u>BWML Consolidated</u>				
Total Capital Employed	7,716	10,913	12,767	13,670
PBT	820	1,091	1,303	1,605
ROCE %	11%	10%	10%	12%
<u>BWML Existing Sites</u>				
Total Capital Employed	5,406	6,965	8,204	8,907
PBT	729	1,103	1,140	1,225
ROCE %	13%	16%	14%	14%
<u>BWML New Sites</u>				
Total Capital Employed	2,309	3,948	4,563	4,762
PBT	91	(11)	164	380
ROCE %	4%	0%	4%	8%

The position for BW group, which compares the equity and freehold property invested in the business by British Waterways with the returns from profitability and rents, shows an overall IRR of 14.2%.

A13.4 Milestones and priorities

Priorities	Milestones	Date
Implement planned acquisitions and developments to meet target increase in berths and financial returns	• Acquire Whixhall marina for £1.3m	Apr 2007
	• Secure alliance with Blue Box at Limehouse	Jun 2007
	• Develop new marina at Cheshire; on site by	Sep 2007
	• Acquire another new marina	April 2008
	• Achieve ROCE of 11% rising to 12%	2007/08-2010/11
	• Develop 750 new mooring berths over 4 year plan	2007/08-2010/11
	• Achieve moorings occupancy of at least 90%	2007/08-2010/11

APPENDIX 14: JOINT VENTURES

A14.1 Summary of the plan

Key objectives are:

- Maximisation of commercial returns from equity investments
- Regeneration and development of mixed use communities with above average sustainability
- Creation of destinations attracting more visitors.

A14.2 Financial tables – summary

BW Share of Joint Ventures	Figures in £k				
	2006/07 F10 Forecast	2007/08 Plan	2008/09 Plan	2009/10 Plan	2010/11 Plan
CBIT	3,595	9,524	8,742	17,551	19,916
Interest Receivable	659	733	720	723	772
Interest Payable	(1,636)	(3,186)	(5,819)	(7,568)	(7,055)
Gains/(Losses) on Disposal (Gloucester Quays)	58	1,428	2,203	2,393	846
CBT	2,676	8,500	5,846	13,099	14,479
isis	4,001	3,401	5,603	6,876	10,291
Wood Wharf	(1,617)	(2,323)	(2,911)	(3,424)	(4,304)
Waterside Pubs	13	57	298	468	505
H ₂ O Urban	52	970	280	1,202	775
City Road Basin	(85)	1,227	(442)	1,970	2,645
Edinburgh Quay	479	3,188	184	2,062	1,828
Timber Basin	-	650	-	5	-
Gloucester Quays	(199)	1,373	2,840	3,923	2,708
Other	32	(44)	(8)	16	32
Total CBT	2,676	8,500	5,846	13,099	14,479
Cost of Capital	(3,077)	(4,751)	(5,976)	(6,428)	(3,871)
Total EVC	(401)	3,748	(130)	6,671	10,608

Contribution from the ventures is projected to increase from £2.6m in 2006/07 to £8.5m in 2007/08 and then £14.5m by 2010/11. After a period of initial losses and marginal profits in many of the JVs, over the plan period all of them (except Wood Wharf) are expected to make significant profit contributions to BW and generate higher levels of financial return than we could expect in our property activities.

A14.3 Summary of each JV

- **isis**. The isis profitability is set out in the table below. In 2007/08 almost the entire profitability of isis is dependent on the scheme at Brentford which has been to a planning enquiry. A decision on whether planning has been granted is expected in July 2007, after which, if successful, the team plan to sell four land parcels for a profit. In 2008/09 development profits are expected at Manchester Islington Wharf (started on site June 2006 for a 200 unit residential scheme) and Leeds Granary Wharf (due to start on site June 2007 for a 273 residential unit scheme) plus a land trade of Greenbelt land at Thurrock. Schemes that are planned to start on site in 2008 and deliver profits in 2009 and 2010 are Brentford Phase 1 (186 units); Leeds Tower Works (157 units); Hale Wharf (380 units); Manchester Phase 2/3 (341 units).

isis	2006/07	2007/08	2008/09	2009/10	2010/11
	F10 Forecast	Plan	Plan	Plan	Plan
Turnover	12,208	18,041	56,792	63,839	88,176
Cost of Sales	(6,747)	(11,618)	(45,398)	(51,214)	(71,200)
Gross Profit	5,461	6,423	11,394	12,625	16,976
Staff Costs	(1,412)	(1,765)	(1,904)	(1,834)	(1,734)
Interest Payable	(91)	(757)	(1,887)	(1,915)	(951)
Profit Before Tax	3,958	3,901	7,603	8,876	14,291
Contingency Provided in BW	-	(500)	(2,000)	(2,000)	(4,000)
Consolidated to BW Group	3,958	3,401	5,603	6,876	10,291

[Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000].

We have found in the past that the isis projections are sensitive to planning decisions and build programmes and hence, on incorporation of the profit figures into BW's plan, we have allowed a contingency in each of the four years of the plan. The contingency is £0.5m, £2.0m, £2.0m and £4.0m in each of the years 2007/08 to 2010/11. No JV contingency has been allowed on the other joint ventures and any adverse movement would have to be accommodated within the BW group contingency. [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]. Debt in the joint venture is currently £6m with a maximum projected exposure of £70m.

- Wood Wharf. The reported losses over the plan period for Wood Wharf represent the overhead costs of the executive team and interest expenses on the bank facilities. All of the adviser fees to work up the planning application and land assembly costs are being capitalised as work in progress. In each year of the plan the BW share of losses of Wood Wharf include a £1m charge being the elimination on consolidation of 50% of the rent paid by Wood Wharf to BW. The £2m rental income is shown within the property business area. Debt in the joint venture is currently £25.6m.
- Pub Partnership. Over the plan period the partnership is projected to acquire 19 existing pubs, develop six new pubs and retie six pubs to Scottish and Newcastle beer brands. By the end of the plan we expect to have 60 units under management with 26 of them part of our soft marketing brand. The improvement to existing units, retie to S&N brands and new development is projected to increased profits from breakeven in 2006/07 to £0.5m profit to BW in 2010/11. Debt in the joint venture is currently £15.2m with a maximum projected exposure of £35m
- H₂O Urban. The 2007/08 profit is based on the development of Actons Lock which is expected to be completed in June 2007 (both the Affordable and Private Housing/Commercial elements have been pre sold) and the land trade of Burdett Road once planning is secured (conditional offer received for this site). [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]. Debt in the joint venture is currently £2.8m with a maximum projected exposure of £7m
- City Road Basin. 259 City Road basin is a JV between City Road Basin and Groveworld. Planning permission has been granted for a 28 storey residential tower which is proposed to be land traded. BW's 25% effective profit share will be £1.2m in 2007/08. [Confidential material removed as exempt from disclosure

[under section 43 of the Freedom of Information Act 2000](#)]. Debt in the joint venture is currently £3.6m with a maximum projected exposure of £10m

- Edinburgh Quay. The profit of £3.2m in 2007/08 is from the projected sale of the Phase 2 office development. The construction was completed in January 2007 although we have yet to find a tenant for the space. The programme assumes a sale of the let building by December 2007. A further £0.2m of profit is projected for 2008/09 if the JPUT stamp duty saving scheme is successful. The profits projected for 2009/10 and 2010/11 of £2.1m and £1.8m respectively are more uncertain and relate to the development of residential units on the Arnold Clark site and redevelopment of the adjacent Rank bingo hall. Debt in the joint venture is currently £11m with a maximum projected exposure of £20m
- Timber Basin. The site is planned to be remediated and sold to a developer for £6.2m in 2007/08 which will create a profit for BW of £0.65m. Once this site is sold the joint venture can be wound up.
- Gloucester Quays. The profit in 2007/08 is projected to arise from the presale of land to a foodstore operator for a capital sum of £15m. The venture team are considering now whether to build the foodstore and let the finished product to a foodstore operator in which case the recognition of profits may be delayed. In 2008/09 it is anticipated that some of the land parcels for residential will be land traded and that the factory outlet centre will be trading in the second half of the year (expected to be on site June 2007). There is considerable risk over the timing of these receipts. Debt in the joint venture is currently zero with a maximum projected exposure of £110m.
- Distributions. In year one of the plan isis distributions are reasonably well matched with profits earned. However, for Edinburgh Quay the projected profit is earned in year 1 and the distribution is in year 2. This timing difference would have to be covered by working capital. The unremitted profits in Gloucester Quays are matched more or less by the losses in Wood Wharf which are non cash items for BW. The total unremitted profit in years 3 and 4 is £8.8m and £10.1m respectively. The largest mismatch between profits and distributions is isis being £4.7m and £10.3m respectively. Edinburgh Quay reports profits of £2.1m in year 3 with a distribution in year 4. This level of drain on working capital in years 3 and 4 could be a potential problem since the commercial capital No2 bank account is expected to be at relatively low levels at this point. It may be that the No1 bank will similarly be at lower levels than historically.

A14.4 Equity needed and JV debt assumptions

The projected equity investments to each of the joint ventures is set out in the table below along with the expected cumulative equity invested by the end of the plan period

	YTD Actual 2006/07	YTD Plan 2006/07	F10 Fcast 2006/07	F8 Fcast 2006/07	Plan 2006/07	Plan 2007/08	Plan 2008/09	Plan 2009/10	Plan 2010/11
Venture capital invested									
Waterscape	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
BWML	1.3		3.0	3.0	5.0	3.6	3.2	0.9	0.8
Edinburgh Quay	0.5		0.5	0.5	1.0	1.5	1.0	1.0	1.0
Timber Basin	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Waterside Pub Partnership	0.5		1.0	1.0	1.9	1.7	1.0	0.7	0.7
Watergrid	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
isis	4.4		6.4	6.4	11.0	11.2	6.0	3.7	6.2
Wood Wharf	4.1		7.4	7.4	3.8	11.3	6.0	3.8	6.3
City Road Basin	0.0		0.0	0.0	0.0	0.0	2.1	0.0	0.0
Gloucester Quay	11.9		11.9	10.2	8.3	2.0	1.0	0.0	0.0
H2oUrban	0.2		0.2	0.2	0.1	0.1	0.1	0.1	0.0
Paddington Business Barges	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (Stoke)	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Leeds Canal basin	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
	22.9		30.4	28.7	31.1	31.4	20.4	10.2	15.0

	YTD Actual 2006/07	F10 Fcast 2006/07	Plan 2006/07	Plan 2007/08	Plan 2008/09	Plan 2009/10	Plan 2010/11
Venture total investment							
Waterscape	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BWML	4.5	6.2	8.2	9.8	13.0	13.9	14.7
Edinburgh Quay	2.9	2.9	3.4	4.4	2.0	3.0	4.0
Timber Basin	0.3	0.3	0.3	0.3	0.0	0.0	0.0
Waterside Pub Partnership	1.0	1.5	2.4	3.2	4.2	4.9	5.6
Watergrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
isis	17.5	17.7	24.9	28.9	34.9	38.6	44.8
Wood Wharf	22.0	25.3	14.7	36.6	42.6	46.4	52.7
City Road Basin	1.1	1.1	1.1	1.1	2.1	2.1	1.1
Gloucester Quay	11.9	11.9	8.3	13.9	14.9	14.9	14.9
H2oUrban	0.9	0.9	0.8	1.0	1.1	1.2	0.1
Paddington Business Barges	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Leeds Canal Basin	4.5	0.0	0.0	0.0	0.0	0.0	0.0
	67.0	68.2	64.5	99.6	115.2	125.4	138.3

A14.5 Issues and risks

All of the joint ventures have their own specific risks and issues. All but Pub Partnership are development vehicles which may be subject to property risks including planning, vacant possession, construction, letting and sales. The main risks in the plan are therefore:

- isis. Development risk in the construction and letting at Manchester (200 residential units); Leeds Granary Wharf (273 residential units); Planning and land trade risk at Brentford and Thurrock. In the later years of the plan further development is projected at Nottingham, Brentford, Hale Wharf, Manchester Phase 2 and 3.
- Wood Wharf. Land assembly costs and masterplanning costs of £17m for BW in advance of a grant of planning (2008/09).

- Edinburgh Quay. Phase 2 offices are built and are awaiting a tenant. If successful then 150 residential units are expected to be built on the adjacent site
- Gloucester Quays. A £100m construction contract to build a 200,000 sq ft factory outlet centre is expected to be awarded in late 2007/08 assuming we can secure 25% prelets.

The development risks within H₂O Urban are modest given the scale of development undertaken. At City Road Basin the proposal is to land trade the main scheme to a residential developer.

A14.6 Milestones and priorities

Priorities	Milestones	Date
isis		
• Leeds Granary Wharf	• Let construction contract	April 07
	• Complete infrastructure	Sept 07
	• Complete development	Dec 08
• Leeds Tower Wharf	• Planning permission granted	Sept 07
	• Award construction Phase 1	May 08
	• Complete development Phases 1, 3, 3	May 12
• Icknield Port Loop	• Submit planning application	Sept 07
	• Grant of planning	Feb 08
	• Award construction contract	Dec 09
• Trent Basin, Nottingham	• Planning permission granted	Dec 07
	• Phase 1 infrastructure completed	June 08
• Glasgow	• Submit planning application at Botany and Applecross	Dec 07
	• Grant of planning	Mar 08
	• Award construction contract	Mar 09
• Hale Wharf Tottenham	• Planning permission granted	Feb 08
	• Award construction contract	Sept 08
• Brentford	• Planning permission granted	Sept 07
	• Disposal of affordable housing and plots C,D,E,F	Dec 07
	• Award construction for plots A, B	Jan 08
• Islington Wharf Manchester	• Exchange 84 additional units (total of 150 out of 200)	Dec 07
	• Building Phase 1 completed	May 08
	• Begin construction Phase 2	Sept 08
• Thurrock	• Redesignation of Green Belt land for development	Dec 07

Wood Wharf	• Outline planning submitted	May 07
	• Phase 1 detailed planning submitted	Sept 07
	• Planning consent granted	
	• Site assembly	Sept 08
	• Infrastructure works commence	Throughout June 09
Waterside Pub Partnership	• £5m capital expenditure pa	2007/08 - 10/11
	• Acquire 4 pubs pa	2007/08 - 10/11
	• Acquire 7 pubs from RBS	April 07
Edinburgh Quay	• Begin development of 2 new pubs pa	2007/08 - 10/11
	• Refurbish 2 pubs pa	2007/08 - 10/11
	• Phase 2 let and sold.	Sep 07
	• McTaggart & Mickel JV signed for Phase 3	May 07
	• Commence work Phase 3	Aug 07
	• Phase 2 dividend received	Dec 07
	• Complete Phase 3	Dec 09
Gloucester Quays	• Infrastructure works on site	June 07
	• Pre Sale or pre let of Foodstore	Sept 07
	• Award construction contract for outlet centre	Oct 07
	• Bridge works complete	
City Road Basin	• Commence head of basin construction works	Jun 08 April 07
	• Negotiate sale of 259 City Road site	Oct 07
	• Submit planning for LB Islington sites	Oct 07
	• Grant of planning for LB Islington sites	Oct 07
H₂O Urban	• Actons Lock construction completed	June 08 Jun 07
	• Hackney Brand Place planning granted	July 07
	• Norwood Green planning submitted	
	• Bow Wharf planning submitted	April 07
	• Norwood Green on site	
	• Bow Wharf on site	April 07

		Oct 07
		April 08
Timber Basin Limited	<ul style="list-style-type: none">• Remediation completed	Apr 07
	<ul style="list-style-type: none">• Sale of site	June 07
	<ul style="list-style-type: none">• Wind up of company	Jan 09
Leeds Canal Basin	<ul style="list-style-type: none">• Company wound up	Mar 08

APPENDIX 15: SUSTAINABILITY MEASURES

The following table shows how we intend to develop a system to measure our sustainability performance over the next two years.

The ticks indicate the year in which we expect to be able to properly collect and record data for performance reporting on each of the measures.

	06-07	07-08	08-09	GRI indicator
Environmental performance				
Resource use				
Renewable materials used			✓	EN1
Recycled materials used		✓	✓	EN2
Energy and climate				
Energy consumption	✓	✓	✓	EN3
Water				
Total abstraction or potable water use	nd	nd	nd	EN8
Volume recycled	nd	nd	nd	EN10
Biodiversity and heritage				
Land and impact of high biodiversity value				EN11 EN12
Heritage assets:				
Designated heritage assets at risk	✓	✓	✓	
Designated heritage assets protected	✓	✓	✓	
Designated heritage assets repaired		✓	✓	
Designated heritage assets damaged			✓	
Public appreciation of the heritage value	✓	✓	✓	
Habitats protected or restored				EN13
Emissions and waste				
Carbon emissions from energy consumed				EN16
Other carbon emissions				EN17
Carbon absorption – narrative				
Waste by type and disposal method				EN22
Significant fines and warnings for non compliance with heritage and environmental regulations				EN28
Society performance				
Employee				
Employees by employment type, contract, in pension scheme		✓	✓	LA1
Employees by age and turnover		✓	✓	LA2
Employees in defined pensions scheme - % and contribution %		✓	✓	EC3
Employees covered by collective bargaining arrangements		✓	✓	LA4
Injury, sickness and absence		✓	✓	LA7

Training			✓	LA10
Performance and career development review		✓	✓	LA12
Employees by gender, age, other diversity measures		✓	✓	LA13
Employee satisfaction		✓	✓	
Community				
Educational visits	✓	✓	✓	
Disabled access or visits				
Mixed use schemes - value of mixed use schemes completed	✓	✓	✓	
Affordable housing units completed	✓	✓	✓	
Community involvement		✓	✓	
Crime and anti social behaviour incidents				
Brownfield sites: brownfield land remediated / developed: hectares	✓	✓	✓	
Derelict/ redundant buildings: nr brought back into economic use	✓	✓	✓	
Listed buildings: BW investment in listed buildings	✓	✓	✓	
Buildings: energy efficiency ratings			✓	
Quality of life: health and well being	✓	✓	✓	
Product responsibility				
Assessment of product for health and safety aspects through its life cycle: condition grades of assets				PR1
Visitor risk management	✓	✓	✓	
Workplace risk management	✓	✓	✓	
Non compliance with regulations and codes concerning health and safety of product: H&S warnings and actions	✓	✓	✓	PR2
Near misses	✓	✓	✓	
Product and service information - availability and percentage covered				PR3
Customer service				
Customer satisfaction	✓	✓	✓	PR5
Customer visits	✓	✓	✓	

Note: GRI indicators are measures recommended by the Global Reporting Initiative, an international organisation promoting consistent standards of sustainability reporting.