

**British
Waterways**

**BRITISH WATERWAYS 3 YEAR PLAN
2002/03 – 2004/05**

PRIVATE & CONFIDENTIAL

BRITISH WATERWAY'S PLAN 2002/03 to 2004/05

1	EXECUTIVE SUMMARY	1
1.1	INTRODUCTION	1
1.2	ECONOMIC CONTEXT	3
1.3	FINANCIAL OVERVIEW	5
1.3.1	<i>Net Profit</i>	5
1.3.2	<i>Income</i>	6
1.3.3	<i>Expenditure</i>	10
1.3.4	<i>Canary Wharf</i>	12
1.3.5	<i>Capital Expenditure</i>	14
1.4	PLANNED PERFORMANCE AGAINST CRITICAL SUCCESS FACTORS	15
1.4.1	<i>High level Performance Indicators on Critical Success Factors</i>	15
1.5	RISKS AND OPPORTUNITIES	16
2	KEY BUSINESS PRIORITIES	19
2.1	WATERWAYS FOR TOMORROW – OVERARCHING RESPONSIBILITIES	19
2.2	SAFETY	22
2.3	THE TRACK INFRASTRUCTURE	23
2.4	MAJOR JOINT VENTURES	25
2.5	TRANCHE 2 REGENERATION AND RESTORATION SCHEMES	28
2.6	CUSTOMER SERVICE	29
2.7	FREIGHT	32
2.8	SCOTLAND	34
2.9	BUSINESS EFFICIENCY	35
2.10	UTILITIES INCOME	38
3	APPENDICES	40
3.1	APPENDIX 1 - WORKS PROGRAMMES	40
3.2	APPENDIX 2 - WATERWAY STANDARDS	41
3.3	APPENDIX 3 – BUSINESS AREA REPORTING	43
3.4	APPENDIX 4 - BALANCE SHEET	44
3.5	APPENDIX 5 - CASHFLOW STATEMENT	45
3.6	APPENDIX 6 - OPERATIONAL CAPITAL EXPENDITURE	46
3.7	APPENDIX 7 - GRANT	47
3.8	APPENDIX 8 – SCOTLAND PROFIT AND LOSS ACCOUNT	48

1 EXECUTIVE SUMMARY

1.1 Introduction

This plan is presented in an updated format from previous medium term plans. The new format aims to show more clearly the impact of our policies and strategies, as detailed in the 10 year Strategic Business Plan, on the planned business results and to focus on key priorities.

This plan forms a consolidation of Regional and Waterway 3 year business plans which contain detailed action plans and initiatives. Individual performance objectives in turn are aligned to these plans.

Following approval of this plan it will be used as the basis for a document to support continued future funding from the Government. In its current form the plan is confidential to BW.

A number of events have occurred during the last year which have impacted on the business and meant that certain assumptions and estimates made for 2002/03 in previous plans need to be updated. This plan corrects these items in the light of current knowledge / expectations.

The main change is the receipt of £46.9m from Canary Wharf Plc. This income has been accounted for in 2001/02 but we plan to utilise this additional resource in the following years and expenditure budgets have been revised accordingly (see page 10 and 12).

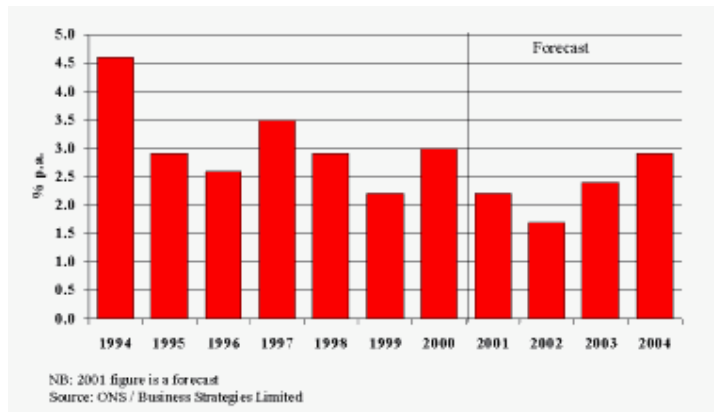
Income and expenditure figures have been updated to reflect a number of other changes most notably:

- Property income is £0.4m lower due to lost income from the transfer of properties into the P4, however this income re-appears as dividends received from JVs in later years.
- Leisure income is £0.4m lower with higher moorings income following changes in pricing structures made during 2001/02, offset by reductions in leisure operators income after some smaller operators went out of business during 2001/02. Estimates of income from visitor attractions have been updated in light of the current difficulties in the leisure market.
- Income earned from fees and recharged works carried out on behalf of other organisations has reduced by £0.3m. Such income is difficult to predict accurately in advance and this years budget provides a more realistic estimate.

- Freight income estimates are £0.9m lower than those made a year ago following reductions in income levels compared to budget during 2001/02, mainly from lower volumes in Docklands.
- Telecoms income is £0.8m lower due to a much slower roll out of mobile phone masts following problems in the industry and later introduction of 3G than planned a year ago.
- Third party funded projects are inherently difficult to budget for as they are dependent on a number of external bodies with their own priorities. This plan takes a prudent view of likely income (and therefore expenditure) from these schemes and some speculative schemes included previously have now been removed.
- Staff costs are £6.8m higher reflecting business growth in visitor attractions, strengthening of the London regional team, work up of tranche 2 restoration schemes and new Omnibus engineering arrangements. In addition £3m of the receipt from Canary Wharf plc has been allocated to fund voluntary early retirements (VER) which will help improve the efficiency of our work force.
- Contract expenditure is £0.5m higher than previous estimates as a result of the extra funds received from the Canary Wharf settlement and offset by c£10m lower than previously anticipated spending on third party schemes.
- Planned operational costs are £1.6m higher due to increased depreciation charges on SCADA equipment and additional operational plant and equipment purchased during 2001/02.
- Increased expenditure on other costs of £2.7m is largely due to the increased professional fees associated with delivering the enhanced works programme financed through the additional grant and Canary Wharf money plus the new SAP maintenance fee.

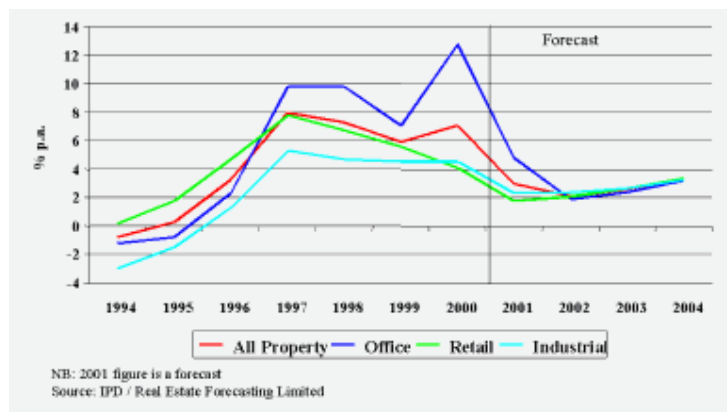
1.2 Economic Context

Our plans have been prepared in the context of the current economic environment and future economic forecasts. 2002 is predicted to have low economic growth as the following chart showing GDP % growth per annum indicates.



With a number of the major world economies in recession the UK is fairing better and is expected to avoid outright recession. With the UK industrial sector already in recession and the service sector showing signs of cooling the total economy is being supported by the household sector. If this sector is to weaken however it is likely to occur in 2002. This could effect consumer spending and put our leisure business under pressure.

The current property market is slowing with commercial property rental growth predicted to fall from 4.3% in 2001 to 2.5% in 2002 before increasing to 3.1% in 2003. The following graph indicates forecast rental growth by sector per annum against historical rates.



Interest rates have been reduced 7 times over the last year from 5.75% to 4%. There is some uncertainty as to whether rates will remain low, or even be reduced further to support consumer spending and stop the whole economy falling into recession, or if they will increase. If there are increases these are unlikely to be large. With interest rates low this should not hinder investment from joint venture partners. On the downside we will earn less interest on cash deposits.

With the general downturn in the economy unemployment is starting to increase which may take some pressure off wage increases although public sector increases continue to exceed the average for the economy as a whole due to recruitment and retention pressures.

The stock market remains subdued with mixed opinions as to the direction of the market in the near to mid term.

The Technology sector remains under intense pressure and telecoms companies in particular are contracting under the burden of very high financial gearing.

1.3 Financial Overview

1.3.1 Net Profit

The following table shows the planned net profit for each year of the plan based upon the income and expenditure plans and the exceptional income from Canary Wharf in 2001/02.

£000	Act 00/01	Bud 01/02	Act 01/02	Bud 02/03	Plan 03/04	Plan 04/05
Income	191,008	182,770	175,617	178,563	198,081	211,457
Expenditure	191,294	181,004	181,612	202,199	195,887	208,799
Expenditure contingency				3,000		
Operating profit	-286	1,766	-5,995	-26,636	2,194	2,658
Interest	188	1,846	1,472	1,159	2,474	2,658
Canary Wharf Income (net of costs)	0	0	46,926	0	0	0
Net profit	-474	-80	39,459	-27,795	-280	0

Although not all the income from Canary Wharf was received in 2001/02 it is required to be brought into the P&L account in that year. As the covenant did not have a net book value on our balance sheet the whole value of the receipt appears as a profit in the 2001/02 P&L account.

The bulk of the remaining cash will be received and spent in 2002/03. This creates the presentation of a large net profit in 2001/02 followed by a loss the following year.

There are a number of risks to the achievement of this plan which are discussed in section 1.5 below. To reflect these and any other, as yet unknown events, we have provided a contingency reserve of £3.0m. If it transpires that some or all of this is not required it will be reallocated to business priorities later in the year.

1.3.2 Income

£000	Act 00/01	Bud 01/02	Act 01/02	Bud 02/03	Plan 03/04	Plan 04/05
Property Operational	9,590	8,135	9,048	8,047	13,201	9,334
Property Investment	16,851	18,358	19,761	19,029	21,260	23,024
JV Dividends	16	51	22	460	766	4,073
PROPERTY	26,457	26,544	28,830	27,536	35,228	36,431
Craft Licences	8,663	9,244	9,157	9,705	10,049	10,424
Mooring Permits	3,588	4,193	4,244	4,874	5,763	6,502
Leisure Operators	3,447	4,186	4,310	3,712	4,258	5,130
Retail	987	1,596	1,481	3,515	4,106	4,671
Fishing Income	732	806	684	787	896	946
LEISURE	17,417	20,026	19,876	22,593	25,072	27,673
Water Sales	4,936	4,362	4,139	3,831	3,533	3,724
Freight	1,154	1,693	750	936	3,203	3,198
Telecommunications	6,501	6,700	6,921	6,659	6,793	6,906
Fees & Rechargeable Works	5,072	4,942	6,399	4,911	4,626	4,201
Maintenance Agreements	1,108	1,588	1,046	2,171	2,735	2,765
OTHER	18,772	19,286	19,255	18,508	20,890	20,794
Contributions To Non-Statutory Works	66,307	54,815	43,019	30,138	30,902	53,468
Government Grant	62,055	62,100	64,637	79,788	85,990	73,090
Total Income	191,008	182,770	175,617	178,563	198,081	211,457

Financial Commentary

Property Income £27.4m (2001/02 £28.8m)

Operational Property

It is expected that ongoing income from operational property will continue at around the current level. Previous year peaks in this income have arisen due to one off premium payments (e.g. for bridge crossings). The value of these vary and are difficult to predict accurately in advance, however included within each year of the plan is £1m of speculative income of this nature. The slightly lower budget for 2002/03 reflects a more cautious view than taken in previous years as a result of the general slow down in the economy.

£2m per annum of income from water companies has been included in the plan from 2003/04 for charges for water discharged into our canals. In addition to this £4m backdated income is included in 2003/04.

Investment Property

While income in 2002/03 is 3.7% less than that for 2001/02, the 2001/02 income includes £1.3m from the sale of residential houses at Enfield, which will not be repeated in 2002/03. If this income is excluded to provide a more sensible comparison the income from investment property is budgeted to increase by 3.1%. This is a lower level of increase than seen previously in this area but reflects our policy to move commercial investment capital out of investment property and into development, leisure and operational businesses (marinas, moorings, visitor attractions).

JV Dividends

This income reflects our policy to work more in partnership with the private sector through joint ventures, particularly in the property sector. Income is expected from the following property joint ventures:

- Main P4
- City Road Basin (London)
- Hawley Wharf (London)
- Bloc. (London)

Leisure Income £22.6m (2001/02 £19.9m)

Craft Licences

Craft licence income is driven by number of boats, length of boats and our prices.

Historically we have seen the number of boats increase on our waterways by an average of 1.3% per annum and the industry expects this growth to continue with the trend being towards longer boats. We are currently in the process of reviewing prices for 2003/04 onwards and as these have not yet been finalised the figures in this plan beyond 2002/03 are based upon nominal annual price increases of 3%. Any variances in the agreed price increase will impact future years plans.

Boat numbers & moorings

Number	00/01	01/02	02/03	03/04	04/05
	Actual	Actual	Budget	Plan	Plan
Boat Numbers	24,372	24,694	25,563	26,074	26,595
BW moorings	8,780	10,205	10,955	11,411	11,974

Mooring Permits

The increase in the number of new moorings is consistent with our strategy to increase the amount of investment in our leisure businesses and develop more offline moorings.

Changes have also been made to the basis on which individual mooring sites are priced. This now links much more closely to the market rate for each location. As a result, the majority of rates are now higher. Some phasing arrangements have been put in place to assist customers in locations where there has been a significant change. Overall the price rises contribute an increase of some 20% to moorings income over the next 2 years.

Leisure operators

This is income from leisure businesses operating along the waterway, it mainly comprises rentals from marina operators where we lease out waterspace.

Income from leisure operators is £598k less than 2001/02. This is largely explained by the one off receipt of £550k for the Clarence dock development in Leeds in 2001/02. Other smaller reductions are due to some leisure operators going out of business during 2001/02.

This income comprises a mix of fixed and turnover rents. As a result we do not automatically benefit from any uplift in underlying business eg if tourism recovers during the next couple of years.

Retail

The retail line includes income from chandlery, boat brokerage, entrance and retail sales from visitor facilities. In the coming year two new visitor facilities will be opened at Falkirk and Anderton which explains the more than doubling of this income.

The direct cost of sales associated with this retail is shown in the expenditure table in section 1.3.3. More detail on gross margins is shown in the Business Area Report in Appendix 3.

Other Operating Income £18.5m (2001/02 £19.3m)

Water sales

Water sales income is planned to reduce due to the following:

- Income from Bristol Water reduces in line with the long term agreement that provided for them to fund certain infrastructure investment which have now been completed.

- Water consumption in the industrial sector has fallen from 135,000ML per annum to 130,000ML per annum due to reduced economic activity
- A number of spray irrigation contracts have been terminated reducing the number of customers in this sector from 77 to 60.

Consistent with the watergrid business plan there is no new income assumed over the plan period from the watergrid joint venture.

Freight

The plan includes the assumption that from 2002/03 our current tolls system will be replaced with a simplified system. This will not have an impact upon income for 2002/03 but we will pursue our funding bid to Government to access funds held by the DTLR for freight facilities grant or similar. This is consistent with the objective of doubling the volume of freight on our waterways by 2010. More details are given in section 2.6 below.

Contributions to Non Statutory Works £30.1m (2001/02 £43.0m)

The expected drop in income is greater than anticipated following the conclusion of Millennium linked projects. The take up of replacement schemes has been slower than expected reflecting increased competition for funding.

The largest scheme in 2002/03 will be the completion of the tranche 1 Rochdale restoration (£11.1m).

Government Grant £79.8m (2001/02 £64.6m)

The grant figure reflects the accounting adjustment made to grant as part of the Canary Wharf Plc receipt in February 2002. This temporarily increased the year end cash position meaning the usual practice of accruing April grant back to the previous year P&L could not take place. As a result, the cash grant received in 2002/03 that will be credited to the P&L in the year it is received increased by £3.6m. This increase has been offset by a greater allocation of grant to operational capital expenditure. There is no change in the total cash grant received over the 2 years.

Government grant includes increased grant of £9m per annum from 2002/03 and the second and third instalments of the additional maintenance arrears grant. Grant in Scotland and 2003/04 DEFRA grant are still to be confirmed.

In last year's plan we intended to bid for additional capital grant which it was expected would be available under new 'resource accounting' rules in government. In reality there is no additional grant available and any capital grant

drawn would result in lower revenue grant. We have therefore removed this assumption in this plan.

Appendix 7 shows a reconciliation between the grant figure shown as income in the profit and loss account and the cash grant planned to be received from DEFRA and the Scottish Executive. One of the reconciling items is an allocation of the cash grant received to operational capital expenditure.

Section 1.3.5 and Appendix 6 give detail on our operational capital programme including proposed changes to our approach for capital budgeting which are in the process of being finalised for introduction in 2002/03.

1.3.3 Expenditure

£000	Act 00/01	Bud 01/02	Act 01/02	Bud 02/03	Plan 03/04	Plan 04/05
Payroll	47,466	53,137	52,262	57,916	59,727	61,623
Travel and Accommodation	1,945	2,082	2,244	2,372	2,277	2,280
Company Car Costs	2,163	2,310	2,569	2,861	2,970	3,019
Temporary Staff	1,494	589	1,642	829	586	513
Training	891	1,243	1,215	1,213	1,069	1,096
Other Staff Related Costs	2,312	988	1,382	4,152	1,115	1,196
STAFF RELATED COSTS	56,272	60,350	61,315	69,343	67,743	69,728
Materials	7,014	5,424	7,226	5,513	5,395	5,435
Contract	100,930	87,804	83,197	92,886	88,432	99,992
MATERIALS AND CONTRACT	107,944	93,229	90,424	98,399	93,826	105,427
Vehicles, Plant and Office	3,703	2,821	3,218	3,219	3,215	3,364
Depreciation	3,778	4,075	4,129	5,159	5,223	5,392
Utilities	3,056	3,295	3,511	3,684	3,781	3,872
OPERATIONAL COSTS	10,537	10,191	10,859	12,063	12,219	12,629
Rent and Rates	1,535	1,681	923	2,096	2,107	2,145
Professional Fees	7,805	7,385	11,510	14,162	9,549	9,656
Claims and Compensation	1,253	571	1,281	453	416	435
Office Services	4,561	4,380	5,878	4,622	5,712	3,695
Publicity	1,955	2,348	2,605	2,637	2,697	2,749
Cost of sales	630	709	1,757	1,208	2,114	2,313
Insurance	548	577	1,412	1,366	1,412	1,442
Own work capitalised	-1,746	-414	-6,351	-1,150	-1,908	-1,417
OTHER COSTS	16,541	17,235	19,015	25,394	22,098	21,016
Total Expenditure	191,294	181,004	181,612	205,199	195,887	208,799

Financial Commentary

Total Staff Costs £69.3m (2001/02 £61.3m)

The budget includes one off expenditure of £3m for Voluntary Early Retirement financed from the Canary Wharf money. Excluding this payroll and staff related

costs are planned to increase by 7.7%. Average merit pay awards and other staff related cost increases account for 4%, leaving about 3.7% explained by new business growth.

The following areas of business growth account for the increase. The increases are consistent within the areas of business growth indicated within the Strategic Business Plan.

	Additional Posts
Falkirk Wheel, Visitor Centre & lowlands canal	30
Anderton boat lift	8
Rochdale canal – employees transferred from Calderdale DC	6
Strengthening of London Regional team	12
South omnibus team to help deliver increased statutory arrears works	7
Central technical engineering support to help deliver increased statutory arrears works	4
South regeneration team to work up tranche 2 projects (temporary)	8
Strengthening of central legal team	3
Technical support for the water grid JV	1
SAP project (temporary)	12
Waterway/Marina Customer service employees	10
	101

The figures shown above are after a reduction of 51 posts cut during the budgeting process. There remains work to do in identifying scope to further reduce the impact of the net increase by re-deploying resource from less strategically important areas. (See also Section 2.8 below)

Contract costs £92.9m (2001/02 £83.2m)

Contract costs are higher as a result of the increased works programme in particular to speed up the reduction of statutory arrears and provide customer service improvements. These increases are partly off-set by a lower level of spend on regeneration and restoration works.

Operational Costs £12.1m (2001/02 £10.9m)

Planned operational costs are £1.2m higher due to increased depreciation charges on SCADA equipment and unplanned operational plant and equipment purchased during 2001/02.

This unplanned operational plant was funded from additional grant of £4m received from DEFRA towards the end of 2001/02.

Other Costs £25.4m (2001/02 £19.0m)

The movements on other costs is largely due to increased spend on engineering professional fees. These are required to help undertake the increased works programme without employing engineers directly. This enables us to maintain flexibility so that this expenditure can easily be cut when the Canary Wharf money and increased grant level reduces. There are also additional costs associated with the SAP maintenance fee and professional fees associated with the installation of SAP. These costs will be more than off-set by savings achieved by the business change project.

1.3.4 Canary Wharf

BW finalised an agreement with Canary Wharf Plc (CW) in February 2002 that provided for the payment of £46.9m by CW for the lifting of a restrictive covenant preventing further development on the site.

The first call on the funds is the settlement of the underlying deficit for 2001/02 caused primarily by the overspending in Scotland on the Millennium Link project.

A specific review process was established to ensure that maximum value is achieved from the balance of the money. The following table illustrates the proposed allocation of the funds that is included within the budgets in this plan.

The objective has been to align the spending to our strategic objectives ie :-

- Reduction in statutory arrears
- Maximise future earned income streams
- Undertake essential customer standards improvements (particularly service blocks)
- Drive business efficiency gains

- Leverage substantial third party funds into regeneration projects such as Cotswolds.

Expenditure category	£m
Commercial investments generating new income	11.5
Statutory arrears	10.0
Customer service improvements	8.9
2001/02 deficit	6.6
Voluntary Early Retirements	3.0
New business development	2.9
Scada	2.0
Tranche 2 Restoration projects	1.2
Professional fees incurred on CW deal	0.7
2002/03 contingency	0.1
	46.9

The customer service improvements planned are based around providing the following improvements and extra facilities:

- Visitor moorings
- Sanitary stations / service blocks
- Towpath improvements
- CCTV and lighting

Once in place these additional facilities will require ongoing maintenance and upkeep which will be financed from the additional income earned from the commercial investments.

To achieve our plans for regeneration and restoration schemes we need to put a small amount of funding into priming these projects. The £1.2m shown above will be required to help initiate the following priority schemes:

- Cotswolds (£250k for two years)
- Bedford and Milton Keynes Link (£100k for two years)
- Manchester, Bolton and Bury restoration (£200k)
- Liverpool canal link (£250k)
- Montgomery canal (£50k).

1.3.5 Capital Expenditure

£000	Actual 00/01	Budget 01/02	Actual 01/02	Budget 02/03	Plan 03/04	Plan 04/05
Commercial Investments						
Estate Non-Operational	32,711		6,957	22,947	16,975	16,975
Estate Operational	2,588		251			
Leisure & Tourism	3,303		6,696	14,100	6,345	6,345
Joint Ventures	548		1,313	9,519	1,680	1,680
Sub-Total Commercial	39,150	26,200	15,217	46,566	25,000	25,000
Operational capital	5,365	3,800	7,801	7,651	4,888	5,054
TOTAL	44,515	30,000	23,018	54,217	29,888	30,054

Commercial capital expenditure in 2002/03 will be funded by disposal proceeds and £11.5m from Canary Wharf income. In the following two years all investments will be funded through disposal proceeds.

The strategy, as detailed in the Strategic Business Plan is for a shift in investments from pure investment property to development, leisure and tourism investments. The increased operational capital expenditure includes expenditure of £3m in 2002/03 on SCADA equipment.

1.4 Planned Performance against Critical Success Factors

The critical success factors set out in the Strategic Business Plan are:

Critical Success Factors

- Backlog eliminated by 2004 and Statutory Arrears by 2010.
- Demonstrably delivering the Government objectives as set out in 'Waterways For Tomorrow'.
- Planned Income targets met.
- Planned Waterway standards and other customer service standards met.
- Formal contractual relationship established with the Government.
- Continuously enhance and protect the British Waterways brand reputation on which much of the growth planned will be based.
- Recruit, retain and develop the number and quality of people to grow the business increasing the employability of all our people.

1.4.1 High level Performance Indicators on Critical Success Factors

	00/01	01/02	01/02	02/03	03/04	04/05
	Actual	Budget	Actual	Budget	Plan	Plan
Safety backlog & Statutory arrears						
Safety backlog balance (£m)	56.9	39.9	39.9	24.5	10.0	0
Statutory arrears (£m)	174.3	181.0	181.0	167.9	154.3	140.0
Overarching Principles						
Environmental Code of Practice	Details of these measures are in the process of being defined					
Waterways with Biodiversity action plans						
Income						
Trading Income (£m)	128.9	120.7	110.9	98.8	112.1	138.4
Simple return from investment property	5.7%	5.9%	6.3%	5.9%	5.9%	6.1%
Craft licence evasion	3.6%	3.0%	3.4%	3.0%	2.6%	2.1%
Waterway Standards						
Navigation	93%	94%	96%	98%	98%	98%
Channel	77%	82%	82%	86%	89%	92%
Environs	91%	92%	92%	95%	95%	95%
Towpath	97%	97%	97%	97%	97%	98%
Customer Satisfaction (with overall upkeep)						
Boaters*	92%	-	-	92%	-	93%
Walkers	91%	91%	88%	91%	92%	93%
People						
Days absence per employee p.a.	10	8	8	7	7	6
Employee turnover **	12%	13%	8%	<16%	<16%	<16%
Employee satisfaction	83%	85%	87%	-	90%	

*Survey conducted bi-annually

** Target is for employee turnover not to go above the industry average of 16%

1.5 Risks and Opportunities

Risks

Government Grant

The plan includes £2.5m pa from 2003/04 of grant in place of the current tolls income (£300k) and £1.5m additional grant income in Scotland. These have not yet been formally approved and therefore present a risk to the achievement of the plan.

Telecoms

Our telecoms partner Easynet Group PLC has recently announced a number of financial and operational restructuring measures due to the particularly difficult conditions in the market at present. The wayleave income of £6.5m pa we receive from Easynet is guaranteed for the next 8 years by Marconi.

Given the recent and current difficulties of both these companies, this guarantee cannot be regarded as totally robust. It is therefore possible that we could lose part or all of the income stream if conditions deteriorate further.

Water Grid

We have not yet finalised an agreement with a private sector partner to establish the Water Grid. There remains a risk that a deal will not be reached. If a joint venture is not established, government may withdraw the balance, or all, of the £30m grant that was given conditional on a business case being established.

Severn Trent Settlement

The plan includes £2m of income per annum from 2003/04 following the successful case against Severn Trent Water, which found that there was no implied right under water industry for a sewerage undertaker to discharge into canals. This income assumption is conditional on a speedy settlement with a number of different water companies. There is a risk to the timing of these agreements and therefore to the receipt of the first payments.

In addition we have been advised to assume that some backdating will be possible. We have further included a one off sum of £4m in 2003/04 on this basis. The figure is considered too speculative to allocate to firm expenditure plans and at this stage it is included as income balanced by a provision of an equal amount.

Speculative Income

The plan includes income of £1m pa from as yet unidentified premiums (bridge crossings etc). The figure is based on previous experience but is not backed by firm contractual commitments at this stage.

Falkirk Visitor Centre

The Falkirk Wheel and visitor centre are due to open in 2002/03. The plan is based on the visitor centre breaking even in the early years, but should there be less visitors than planned losses will be likely.

Tax

The budget has been prepared on the basis that there will not be any tax payable on the Canary Wharf money. Whether tax becomes payable will depend upon the final determination of the covenant's base cost and the extent to which the gain arising can be off-set against trading losses. The plan is based upon the full gain being off-set against the planned 2002/03 trading loss. Should this change and tax become payable there will be less funds available for the expenditure shown under section 1.3.4.

Regeneration and Restoration Schemes

There is a risk in the income plan relating to income for regeneration and restoration schemes. Issues with funding bodies, outside of our control, often cause delays in funding. Highly speculative schemes have not been included in this plan, but there is still a risk on timing.

The exposure is only on turnover however, as expenditure slips correspondingly if income is delayed.

Opportunities

Utility Income


There is potential for additional annual income from revised agreements with non water utility companies. On settlement of these agreements backdated income may arise which could lead to some substantial receipts. These cannot be quantified at this time.

Additional Grant

We are currently bidding to DEFRA and the Scottish Executive as part of the 2002 Spending review for additional grant to eliminate statutory arrears by 2010. If we are successful with this bid it is most likely this additional grant will be received from 2004/05.

New Businesses

As well as some of the new business ventures not progressing as planned there is also the upside that they could perform better than plan particularly P4.



2 KEY BUSINESS PRIORITIES

2.1 Waterways For Tomorrow – Overarching responsibilities

Our statutory responsibilities extend beyond just that of a navigation authority and the maintenance of the waterway infrastructure. Our wider objectives are consistent with government policy as defined in Waterways For Tomorrow. We will continue to ensure that we are working to deliver these and that the correct priority is being placed on specific initiatives.

Key priorities for 2002/03 are:

1. Prepare a sustainable development action plan.
2. Continue to communicate the concepts of sustainable development to waterways to ensure these concepts are considered in all our activities.
3. Ensure via a sustainable development framework that high profile initiatives such as water grid, P4 and new visitor destinations consider our overarching principles and objectives.
4. Develop sustainable development reporting mechanisms and indicators.

Environment & Heritage

We have a structured system in place to identify how our work should be carried out to protect and conserve the heritage and environment. This is managed by our Environmental Code of Practice (ECP) – our environmental management system. Under the ECP, an appraisal of environment and heritage impact is required for any job or project – whether maintenance activity, commercial project, procurement plan or marketing initiative. Externally funded projects and third party works must also be assessed.

The ECP ensures a consistent approach to identifying the impact of our actions. But it doesn't describe British Waterways' natural and cultural heritage, nor how to conserve or improve it. These needs are being met by the increasing use of a range of strategies and management plans – Conservation Plans, Biodiversity Action Plans and a Heritage Strategy.

Waterway Conservation Plans are in place for the Kennet & Avon Canal and the restored Huddersfield Narrow Canal. The Plans draw together arrangements for financial management of the waterway, with the management of recreation, community use, wildlife, heritage and water quality and resources.

Key priority 2002/03: the preparation of a new sustainability plan for the Montgomery Canal.

Biodiversity Action Plans (BAP) Our corporate Biodiversity Framework identifies those habitats and species that are most important on the waterways, using government guidelines on evaluating Biodiversity. It includes not only rare habitats and species but also those which are commonplace.

Key priorities for 2002/03 are: -

1. To develop ideas and initiatives that will enhance biodiversity – in partnership with other organisations including local authorities, the Wildlife Trusts, nature conservation and countryside agencies and funding bodies.
2. To modify existing practices through tasks like hedgerow and towpath verge protection and the use of 'green' bank protection.
3. To ensuring we have individual BAPs for each waterway.

Heritage Strategy Designed to help us improve our track record in this key area of activity, the Heritage Strategy will develop staff skills, assist waterways in managing their heritage structures and will ensure heritage receives a high profile in restoration & regeneration schemes.

Key priority for 2002/03: a roll-out of Heritage Action Plans – designed to do the same job for the built environment as our BAP's perform for wildlife.

Water Quality The quality of water in all our waterways, along with most other inland and coastal waters, is monitored by the government's environmental regulators (Environment Agency and the Scottish Environment Protection Agency). They monitor compliance against government objectives, and have powers to improve quality where needed. We have set our own targets for water quality for our waterways, consistent with the regulators standards and our needs.

Key priority for 2002/03 : produce Water Quality Action Plans, for each waterway.

Key Milestones

• Review and update Environmental policy completed	Sept 2002
• Implement heritage strategy plan	Sept 2002
• Agree action plan and programme with EN	Sept 2002
• Introduction of a sustainable development checklist for commercial projects	Dec 2002
• National pilot initiatives developed	Dec 2002
• Sustainable development action plan published	Feb 2003
• Communication of waterways and development plans to BW and LPA's	Mar 2003
• Waterway water quality action plans completed	April 2002

Social benefit

Part of the waterways' attraction is their accessibility to a wide range of people. Our work aims to increase accessibility to more people and to the widest possible range of people.

To this end, we operate under the following guiding principles:

- we consider issues of wide and equal access when planning projects.
- we seek partners who can help us increase access to the widest possible range of people.

In last year's plan we highlighted a number of priority initiatives linked to social inclusion. Progress on these projects is summarised below:

Key initiatives 2001/02	Progress
<ul style="list-style-type: none"> • We are piloting a 'Staff in Schools' project which will allow our people to strengthen their relationship with local communities. • Waterways Challenge project, which is a series of waterway activities with clear national curriculum links for teachers. • Education boats. • An upgrade of our printed material for schools giving it a fresh and contemporary identity. • Designing out threatening areas of towpath to make them more attractive and accessible. 	<ul style="list-style-type: none"> • Pilot completed and new education partnership with IWA an TWT established. • Launched August 2001. • First boat delivered and in service. • Completed December 2001. • Ongoing with third party funding (e.g. London Waterway Partnership)

- | | |
|---|---|
| <ul style="list-style-type: none">• Putting in additional facilities for disabled access. | <ul style="list-style-type: none">• Ongoing |
|---|---|

Key priorities for 2002/03 are:-

1. Printing and distribution of promotional literature designed to help staff win new partners and funding to promote social inclusion.
2. Signing of new memoranda of understanding with partners who can enhance our capacity for social inclusion.
3. Working with funding partners to develop new sources of funding to promote social inclusion on the waterways.
4. Finding new opportunities to integrate waterways into existing wider social benefit programmes, including recognising and supporting the work undertaken by volunteer groups.

Key Milestones

- | | |
|--|------------|
| <ul style="list-style-type: none">• Confirm success of promotional literature (+ revise for future purposes) | Sept 2002 |
| <ul style="list-style-type: none">• 1st new social inclusion M.O.U to be signed | Jan 2003 |
| <ul style="list-style-type: none">• Fundraising complete for W.O.W, the education partnership with IWA and TWT | March 2003 |

2.2 Safety

The safety of both users and our people is our first priority and concern. Waterways by nature are potentially dangerous places as is much of the work carried out by our bank side workers. We therefore have a duty to ensure:

- The risks to users are minimised as far as possible
- Our employees are correctly trained
- We provide our people with the correct tools and safety equipment.

In last year's plan we highlighted a number of priority initiatives linked to safety. Progress on these projects is summarised below:

Key initiatives 2001/02	Progress
An audit programme to assess whether workplaces and safety processes are being applied correctly.	Audit completed
Competency assessment training programme to ensure our people are competent to utilise potentially dangerous equipment. This will be supported by appropriate training where necessary.	Training being completed to programme
Risk management on major projects to ensure the safety of contractors, the public and our own people.	Reviews completed on major projects e.g. Anderton/Falkirk
A review of all safety procedures and guidance to ensure they remain appropriate.	Work in progress for June Board recommendation
Improved monitoring systems will be introduced to ensure incident reporting is up to date and correctly recorded. This will then provide data for better accident and incident reports.	Now in progress following software delay.

Key priorities for 2002/03 are:-

1. Continue programme of actions to reduce reportable accidents and lost time
2. Complete recommendations to the Board on safety procedures/guidance.

2.3 The Track Infrastructure

Safety Backlog and Arrears

The table in 1.4.1 shows the outstanding balance of safety backlog and statutory arrears at the end of each year.

With current funding levels and plans the safety backlog will be eliminated by the end of 2004. Our aspirations remain to eliminate the statutory arrears by 2010 however this cannot be achieved with current funds. Current funds will permit the statutory arrears to be eliminated by the end of 2012. We are currently bidding to DEFRA (and the Scottish Executive) to provide additional grant to enable the 2010 target to be met.

Key priorities for 2002/03 are:-

1. Clarification of statutory arrears and formalising project based plans with estimated costs and timescales using the same method adopted for the safety backlog.
2. Appointment of omnibus based contract for engineering services to handle additional work in the South and London.
3. Re-tender existing omnibus contracts to ensure continuity and delivery of programme.
4. Establish a framework agreement with engineering consultants to provide additional resource.
5. Appointment of framework contracts with re-tender of existing omnibus contractors to ensure continuity and delivery of programme.
6. Production of monthly spend details identifying backlog and arrears separately as part of the management accounts.
7. Rework arrears programme to 2010 if additional grant received.
8. Inspection program ongoing.

Water Supply and Management

The supply of water is important for boaters, water sales customers and the environment. We will balance all the demands for water to meet the needs of our customers.

We intend to continue to improve the efficiency of our water management by integrating water management plans for each waterway and to track our success in managing water resources through the use of the water resource management performance measure. This performance measure is based upon measurements taken from key sites and covers the effects on navigation, the supply of water to customers, water losses and water levels in relation to reservoir control curves.

	00/01	01/02	01/02	02/03	03/04	04/05
	Actual	Budget	Actual	Budget		
Water resource management	88%	90%	90%	90%	90%	90%

Part of our duty in operating the navigations is to control water levels during periods of flood. By controlling the amount of water we release to adjacent watercourses or transfer to other parts of the network we help ensure urban areas are not flooded.

On some of our river navigations we also directly operate flood control structures to control water flows during times of flood.

Key priorities for 2002/03 are:-

1. Implement the national water management strategy prepared during 2001/02
2. Complete Waterway water management plans for the outstanding 20% and ensure all waterways have quarterly performance indicators for water management
3. Support the Watergrid JV.

Key Milestones		
• Additional grant to achieve 2010 confirmed		July 2002
• Inspection target achieved in all regions		Sept. 2002/
• Outstanding backlog balance in line with phased Target for 2004	Target	Sept/Mar 2003
• Outstanding arrears balance in line with phased Target for 2012		Sept/Mar 2003
• Water management plans in place on all Waterways		Mar 2003

2.4 Major Joint Ventures

Property PPP

£000	00/01	01/02	02/03	03/04	04/05
	Actual	Actual	Budget	Plan	Plan
P4 Dividend					1,200

The property PPP (P4) will be formed by the end of March 2002. We expect to sign the documentation in March/April.

The key priorities for 2002/03 are:

1. Agree the resourcing strategy to ensure the best blend of BW and Warp4 expertise at each site.
2. Appoint a Chief Executive
3. Agree site specific property plans setting out key actions, milestones and exit strategies for all the 10 initial properties.

Wood Wharf, Docklands

In last year's plan we referred to the acquisition of the part of London Properties during 2000/01 which included our largest single investment opportunity, Wood Wharf. We have decided that to maximise the value of this asset we would exclude it from the P4 portfolio.

Key priority for 2002/03: to identify the best approach and timing to the development of this nationally significant opportunity for BW. This may involve creation of a separate investment vehicle based on the P4 model.

The key milestones to be achieved over the coming year are:

Milestones	
• P4 Financial close	April 2002
• Appoint P4 Chief Executive	Asap
• Agree initial resourcing strategy	April 2002
• Agree new name and PR strategy	April 2002
• Create detailed site specific asset plans for taking each opportunity forward.	May/June 2002
• Business case for POLP proposal	December 2002

Water Grid

We expect the Water Grid JV to be formed in April/May 2002. This JV is one of the Government's first wider market initiatives and is breaking a lot of new ground. Added to this is the highly regulated nature of the water market and consequently we can expect to receive considerable interest over the first months and year of the JV.

The key priorities for 2002/03 are:

1. Agree revised business plan to reflect full opportunity and BW's aspirations.
2. Planning and implementing the network repairs and control works necessary to facilitate effective water transfer and meet the needs of JV. Co.
3. Establish the national control centre and associated telemetry.
4. Obtain RRO to enable BW to sell treated water.
5. Agree name of JV and create marketing strategy.
6. Find new customers.

Key milestones are:

Milestones	
• Agree revised business plan	April 2002
• Financial close	May 2002
• Agree name and PR strategy	May 2002
• Identify key target customers	May 2002
• Review of existing BW contracts	June/July 2002
• Achieve RRO	Nov/Dec 2002
• Operational investment and set up complete	March 2003

Other Significant JV's

UK

During 2001/2 we reached agreement with Peel Holdings and public sector partners to form a JV to develop a major regeneration scheme based on Gloucester docks.

We have also established JVs at Nottingham and Edinburgh to facilitate major re-development alongside the waterway. The Nottingham JV is planned to be managed into the P4 vehicle during 2002/03.

Key priorities for 2002/03 are :-

1. Major campaign to support the Gloucester docks planning application
2. Formation of the legal entity for the partnership with Peel Holdings.
3. Evaluate and decide on the commissioning of the Edinburgh Quay contractor.

Overseas

In March 2002 a JV agreement was signed with Anggun Perkassa to establish a company to bid for work from the Malaysian government as part of a major waterway restoration programme.

Key priorities for 2002/03 are:

1. To support the JV in seeking preferred bidder status in the placing of government contracts.

2. To provide relevant expertise to the JV to ensure bids are appropriate to BW core competencies.

Milestones	
• Construction contract let for Edinburgh Quay	May 2002
• Malaysian JV short listed for 1 st Government contract	Sept 2002
• Limited partnership documentation with Peel holdings finalised	Dec 2002

2.5 Tranche 2 Regeneration and Restoration schemes

Following the successful completion of the first group of waterway restorations, we now plan to use the experience gained and the reputation established to deliver a second tranche of schemes.

Our priority schemes amongst the full list of potential schemes in the 10 Year Strategy Plan are shown below.

Key priorities for 2002/03 are:-

1. Appointment of a small team to work up detailed feasibility studies / business case for priority schemes.
2. Significant in principle agreement obtained to part fund priority schemes.
3. Developing match funding proposals linked to third party offers.
4. Establish project team for Cotswolds once business case accepted.
5. Work in conjunction with TWT to identify all possible ways to maximise the benefit of involving TWT in restoration schemes.
6. While not only associated with helping to deliver tranche 2 schemes we will continue to monitor the performance of the TWT contract against agreed performance criteria.

Priority tranche 2 schemes are shown below. The figures are the planned gross spend on each scheme with BW's contribution shown separately.

£000	02/03		03/04		04/05	
	Total	BW	Total	BW	Total	BW
Montgomery canal	1,650	550*	2,750		3,050	
Manchester , Bolton & Bury (MB&B)	0		4,000		10,000	
Liverpool canal link	350		5,000		10,000	
Bedford to Milton Keynes	555	186	1,102	141	1,125	46
Cotswolds	687	184	6,219	139	9,375	43
Droitwich barge and junction canals	-		2,800		1,920	
Northern Reaches	-		-		1,000	
Foxton inclined plane	90		540		470	
Bow Back rivers **	-		-		-	

* £550k has been allocated across these three projects for 2002/03 to work them up and secure the funding. In following years we plan these schemes to be fully funded.

** Whilst this is a priority tranche 2 scheme works are not due to start until after this plan period.

Key Milestones

- In principle agreement from HLF for c£30m for Cotswolds July 2002
- Confirmation of viable business case for Cotswolds based on HLF offer Sept. 2002
- Heads of terms agreed for Liverpool link Dec. 2002
- Acquisition and development plan for BMK link prepared May 2002
- Secure funding agreement with HLF for Cotswold restoration March 2003
- Re-negotiation of TWT contract March 2004

2.6 Customer Service

Waterway standards

The waterway standards are the key measurement system for the level of customer service provided. They include access points, towpath quality, cleanliness and channel dimensions.

A minimum standard has been set for each kilometre of waterway and the following table shows compliance with that standard.

		00/01	01/02	01/02	02/03	03/04	04/05
		Actual	Bud	Actual	Bud		
Percentage of waterway	Nav	93%	94%	96%	98%	98%	98%
At or better than	Chan	77%	82%	82%	86%	89%	92%
Minimum standard	Env	91%	92%	95%	95%	95%	95%
	Tpath	97%	97%	97%	97%	97%	98%

Appendix 2 defines waterway standards and our targets in more detail.

Navigation Availability

Our approach is to plan works so that they have the minimum impact upon customers. During the main cruising season from Easter to October and over the two-week Christmas break we will aim to have all navigations open. Closures for major works will be planned during the winter with closures published well in advance. Acceleration of safety backlog and statutory arrears work will inevitably have a short-term impact on availability but a positive impact on long term reliability.

Boaters satisfaction with our availability is measured from feedback received in the following ways:

- from local and national user group meetings
- carrying out formal surveys both nationally and site specific
- informal feedback.

Progress in 2001/02

In last year's plan we highlighted a number of priority initiatives linked to navigation availability. Progress on these projects is summarised below:

Key initiatives 2001-02	Progress
Develop a new national user group structure for consultation on national strategic issues.	New user group meetings focusing on boating and towpath issues introduced.
Action results of customer survey	Results currently with waterway managers for action
Customer service provisions via the internet will continue to be developed.	Web site re-launched November 2001.

Key priorities for 2002/03 are:

1. Further modular upgrade to services offered via the web site.
2. Conclusion of interpretation of survey results to local action plans
3. Continue with the new approach to user groups.

Key Milestones	
• Complete an exercise to identify the costs of maintaining each waterway to higher customer focused standards (e.g sanitary	March 2003

facilities)	
• Spend an additional £3m on dredging	March 2003

Customer facilities

New visitor facilities will be opened during the year most notably at Falkirk and Anderton.

We also anticipate spending £8.9m of the income received from Canary Wharf on customer improvements, which have not been addressed over recent years due to resources being diverted to safety backlog and statutory arrears.

Where appropriate we will support the use of the waterways for fishing.

Key priorities for 2002/03 are:-

- 1 A priority list of "Make a difference" projects (financed from the £8.9m mentioned above) to be delivered during 2002/03 and the following year. Works will focus on achieving maximum customer impact amongst widest possible range of different users, with a particular priority being improved sanitation.
- 2 Additional visitor attractions to be opened, beginning with Anderton Boat Lift experience and Falkirk Wheel Visitor Centre. Priorities at Anderton will be :
 - i) achieving predicted visitor numbers and average spend needed to achieve the business plan
 - ii) completion of permanent visitor centre building and fit out on time and to budget.

Key Milestones		
• Confirm make a difference projects being with planned timescale and costs	completed in line	Sept. 2002 & Mar. 2003
• Confirmation at Anderton that summer season visitor numbers , income and margin in line with business plan for Anderton Boat Lift experience		November 2002

Internet Business Venture Feasibility

This important potential new business development is currently in its infancy and further work is planned to assess its viability during 2002/03. The proposal would be to create an internet based business which would provide a modern efficient

channel of communications with existing and new customers whilst bringing consumers together with suppliers of waterway related products and services.

New income would be generated through sales of waterway holidays, advertising and information services. In addition it is intended that the proposal will extend our customer base by bringing waterside activities and opportunities to a much wider audience.

No new income has been included in the plan from this business at this stage as more work needs to be done to confirm its viability. Work up costs to establish whether there is a viable business opportunity have been included in the plan (c£150k). In addition the estimated business start up costs (initial investment to cash break even) are provided for within the Canary Wharf income allocation (£2.4m). If the project does not proceed the start up funding will be re-allocated to other customer facing initiatives.

Key Milestones	
• Internet Feasibility study complete	June 2002
• Confirm Internet development costs in line with funding assumptions	June 2002
• Board approval	Sept 2002
• New business starts trading	Jan 2003

2.7 Freight

While freight only accounts for a small part of our business it plays a useful part in the Governments plans to manage transport more efficiently.

The Government has set testing targets to remove freight from the roads and we need to play our part as the leading inland navigation authority in getting more freight onto our waters. There are some exciting possibilities, particularly in the area of waste and other niche markets. We have recently appointed a new Head of Freight to develop this part of the business further and to help ensure we meet the targets set in the Strategic Business Plan.

In last year's plan we highlighted a number of priority initiatives linked to freight. Progress on these projects is summarised below:

Key Initiatives from 2001/02	Progress
Investigate commercial viability of transporting domestic waste from Hackney to the waste	Proposal delayed due to Hackney Councils financial position.

and energy plant at Edmonton.	
Maximise the building material carried by water to the building work in London Docklands.	Heron keys completed and next tranche of construction awaited.
	Volume and weight of material transported was less than anticipated. Revision of rates will help future incomes.
Investigation of waste by water at Gloucester.	Talks with Cory waste advanced during 2001/02 with craft designs and operational land sites identified.
	The scheme is currently the subject of a Gloucester city council enquiry that is not due to conclude until Feb 2003.
	Licence schedules to be issued 2005 if results of the enquiry are in our favour.
Feasibility of transporting timber on the Caledonian Canal in Scotland	Initiatives to increase the volume of timber carried on Scottish waterways are ongoing and promoted via timberlink (an alliance between BW, Forest Enterprise and ABP).

Key priorities for 2002/03 are:-

1. Bring forward specific initiatives at national level to deliver growth in bulk and niche markets.
2. Following publication of the report of the independent freight study group (FSG), develop a programme which maximises the opportunities to BW under the new regime.
3. Work with the new government backed sponsor of waste re-cycling initiatives (WRAP Ltd) on the development of waste business opportunities.
5. Pursue funding bids with DEFRA for additional grant for freight in SR2002. This will focus on obtaining access to funds held by the DTLR for Freight Facilities Grant or similar.
6. Introduce the simplified toll regime from April 2002
7. Introduce a licensing system from April 2003 to address safety issues.

Key Milestones		
•	Completion of a new national business plan for freight incorporating the outcome of the FSG.	June 2002
•	Identify whether or not a viable opportunity exists with WRAP and produce business case or alternative proposals as appropriate	Sept. 2002
•	Favourable decision on DEFRA funding bid	Sept. 2002

2.8 Scotland

The Millennium Link project was completed during 2001/02 and attention will now be concentrated on realising the economic benefit of the link across the lowlands. The highlands management will be focused on keeping the engineering situation stable whilst further developing links with the local communities and businesses.

Key priorities for 2002/03 are:-

1. Ensure the commercial success of the wheel site focusing on achieving planned visitor numbers and average spend targets.
2. Active control of gross margins and operational costs of the new visitor centre.
3. Ensuring the Scottish team is appropriately resourced to deal with the enlarged role in particular in respect of dealing with the Scottish Executive
4. Preparation of a strategy to fully exploit the newly opened lowlands canals. This will include driving the growth in boat numbers and ensuring craft licence pricing arrangements support this.
5. Build on existing strong relationship with Scottish Executive (SE) to secure additional funding to cover the cost of eliminating safety backlog in Scotland by 2004.
6. Acceptance by the Scottish Executive of funding arrangements based on contract for services replacing grant in aid.
7. Liaise with the Scottish Executive to ensure their objectives, shortly to be published, lie comfortably with BWs aims and objectives
8. Maintain a reserve within corporate BW funds to cover the Scottish safety backlog target in 2003/04 if the Scottish Executive does not provide additional grant.
9. Apply the lessons learnt from Scottish devolution to Wales where applicable.

Key Milestones

• 1 st Quarter visitor numbers meet business case projections	July 2002
• Scottish Executive agreement to contract basis for 03/04 funding	July 2002
• Additional funding request confirmed	Sept. 2002
• Lowlands strategy completed	Sept. 2002

- Summer season income and margins in line with Business plan

October 2002

2.9 Business Efficiency

Our strategy to deliver value for money is to reduce central and regional overheads as a proportion of total expenditure so that a greater proportion of total expenditure is spent directly on the waterways. At the same time we will negotiate, compete down or work in partnership with suppliers to achieve procurement savings.

Targets for expenditure on central and regional office overheads will be revised to take account of the Business Change Project following the completion of business process reviews during 2002/03. The reduced percentages for 2004/05 are initial indicative estimates following the business change project. The lower actual percentages for 2000/01 are as a result of higher expenditure in that year on regeneration and restoration projects as opposed to higher overhead expenditure in later years.

	00/01	01/02	01/02	02/03	03/04	04/05
	Actual	Budget	Actual	Budget		
Overheads as % of total expenditure						
Central Overheads	7.1%	8.5%	8.2%	7.9%	8.3%	7.9%
Regional Office Overheads	4.6%	4.1%	4.9%	4.5%	4.6%	3.6%

The reduction in 2002/03 is partly caused by the additional Canary Wharf expenditure. This also explains why in 2003/04 there is an increase before another reduction in 2004/05.

Business Change Project

Key priorities for 2002/03 are:

1. Establish the BW user team to work alongside IT staff and external consultants on the implementation.
2. Set up the Project Board to oversee the project in accordance with Prince 2 methodology and project systems plan.
3. Structure and carry out business process reviews of all key activities to enable mapping onto standard SAP processes.
4. Finalise details of the SLA for 3rd party hosting prior to transfer to hosted environment from 1 April 2003.
5. Active communication across the business to ensure continued awareness and support of all staff

The introduction of new IT systems alone will not achieve all the business benefits required, however this will provide the impetus to modernise the whole of our business processes and make them more efficient.

A key part of the SAP project will therefore be a fundamental review and re-engineering of business processes. Most savings are expected to come from reduced administration.

The business change project will enable evaluation of a number of different business structures (shared services , de-administered local offices etc) that will contribute to achieving enhanced efficiencies across the business.

Measuring efficiency

In addition to the significant savings in administration from the business change project, we intend to focus on the operational efficiency of front line staff by utilising the enhanced management information produced by SAP to develop meaningful and targeted efficiency measures.

This information will form the basis of internal and (where appropriate comparisons exist) external benchmarking of core activities.

Key priorities for 2002/03 are:-

1. Identification of appropriate measures.
2. Incorporation of additional information needs into SAP specification.
3. Pilot data collection and investigate which measures could be introduced with existing systems.

Procurement Savings

We plan to continue the programme of procurement savings as contracts are re-negotiated. The planned values of savings are shown below along with the reductions achieved in 2001/2.

The savings are re-invested in the business and play an important part in our being able to bring forward the dates for clearing maintenance backlog and arrears.

£m	00/01	01/02	01/02	02/03	03/04	04/05
	Actual	Budget	Actual	Budget		

Procurement cash Savings	3.1	1.0	1.9	1.0	1.0	1.0
--------------------------	-----	-----	-----	-----	-----	-----

Priority areas for saving in 2002/03 are:

1. Set up South omnibus contract
2. Implement a National timber contract
3. Monitor national contracts for vehicles, mobile phones and stationery to ensure continued value for money.

People

In last year's plan we highlighted a number of priority initiatives linked to people. Progress on these projects is summarised below:

Key Initiative in 2001/02	Progress
Induction training - our policy is for all new employees to attend an induction training course.	Induction programme operational with c300 people trained.
Customer care – we have developed a programme with the English Tourist Board and in 2001/02 plan to train 400 employees as part of a 3 year customer care training programme.	Customer care training given to all induction course attendees
Health and safety – during 2000/01 we re-assessed health and safety requirements and following this a comprehensive two year programme of competency assessment and training is being actioned.	Competencies identified and training programme in place
Introduce occupational health programme	Funded approach based on proactive occupational health programme introduced
Extend performance and development needs/potential to additional disciplines.	Extended use of development centres for succession planning

Key Priorities for 2002/03 are:

1. Oversee national Voluntary Early Retirement programme funded from Canary Wharf income to ensure this major change delivers added value.
2. Carry out an analysis of the deployment of human resource between strategic imperatives and other roles.

3. Ensure that the resource savings identified in the business change project are used to re-deploy staff to front line roles so that growth can be achieved without additional head count overall.
4. Continue to work with and develop trade union relationships.

Key Milestones	
Business change & efficiency	
• User team membership finalised and individuals released from line role	April 2002
• SLA details finalised	June 2002
• Process reviews completed	July 2002
• Identify core benchmarks	July 2002
• System build begins	August 2002
• Sign off SAP system blueprint	August 2002
• Plan for re-deployment of office based staff as part of the business change project	Sept 2002
• Pilot measures reported using existing information	Sept 2002
• Complete resource analysis	Dec 2002
• Conclude negotiations to achieve procurement savings of £1m pa	March 2003
People	
• Completion of VER programme	March 2003
• Support from Trade Unions on business change and efficiency plans	March 2003

2.10 Utilities Income

We are in negotiations with a number of utility companies to review and uplift current agreements. These cases are complex and proving difficult to resolve, because of this no additional income has been included within the plan. There is potential for the following additional income per annum and backdated payments:

Utility	Current Income p.a. (£000)	Potential settlement (£000)	Best settlement date	Backdated Income
Electricity	75	700	Mar 2003	£6.25m
Gas	412	600	Dec 2002	£1.1m
Energis	43	100	Mar 2004	£0.4m

We recently received a favourable judgement from the Court of Appeal which reopened the prospect for obtaining significantly increased income from water companies for discharges into the canals.

Key priorities for 2002/03 are:-

Private and Confidential

1. To undertake fieldwork to reliably quantify the actual location and nature of current discharges.
2. Negotiate with water companies at senior level to establish a simple approach to agreeing appropriate payment levels for the future.
3. Put resources in place and undertake detailed negotiation of increased future annual payments and backdating where appropriate.

Key Milestones

• Achieve agreement with water companies on overall approach	June 2002
• Conclude negotiations with Water Companies	Dec. 2002
• Resolve REC arbitration	Mar. 2003

3 APPENDICES

3.1 Appendix 1 - Works Programmes

Each waterway constructs its own general works programme each year that covers routine maintenance, customer service and some renewal/refurbishment.

As well as waterway general works programmes (GWP) we have a national priority projects programme (PPP). This is a national works programme agreed with regional engineers and implemented locally. These works cover renewal/refurbishment, safety backlog, statutory arrears, customer service and our contributions to regeneration and restoration works.

The priority projects programme is planned on a three-year cycle to enable adequate resources to be put into the planning and design stage of projects. The following table shows the planned priority project programme and general works programme analysed by business sector for the three years beginning 2002/03.

£m	02-03		03-04		04-05	
	GWP	PPP	GWP	PPP	GWP	PPP
Routine maintenance (Core waterway)	60.3		61.5		62.7	
Renewal / Refurbishment		3.4		3.5		4.5
Safety Backlog		15.4		14.5		10.0
Statutory Arrears		19.7		19.6		19.5
Service (operations)		10.9		8.9		2.3
Regeneration (third party)		3.3		2.4		2.7
Total	60.3	52.7	61.5	48.9	62.7	39.0

3.2 Appendix 2 - Waterway Standards

Navigation Standards	Type	Example
N1	River, Canalised River or Canal A busy major waterway serviced throughout the year with significant freight and leisure traffic.	Aire & Calder
N2	River, Canalised River or Canal A major waterway predominantly used by leisure but with some freight, seasonally available.	River Severn, River Trent
N3	River, Canalised River or Canal A busy waterway capable of sustaining 500+ boats per week.	Parts of Grand Union Main Line, River Soar, Llangollen, South Oxford
N4	Canal Standard A waterway capable of sustaining 200+ boats per week.	Whole of Worcester & Birmingham, Trent & Mersey, Kennet & Avon Canal
N5	Canal Undeveloped A waterway capable of sustaining 200+ boats per week.	Parts of Birmingham Canal Navigations, remainder section of Leeds & Liverpool, navigable section of Montgomery
N6	Un-navigable Canal A waterway capable of sustaining 200+ boats per week.	Un-navigable sections of Montgomery Canal, Southern section of Monmouthshire & Brecon
N7	Dry track of a former canal.	Parts of St Helens, Shrewsbury
Channel Standards	Description	
C1	Consistently exceeds the minimum laid-down standard for the waterway in respect of channel depth by 15%. An absence of weed and obstructions to navigation. Appropriate air draft maintained to enable two way navigation where practical.	
C2	Generally meets the laid down standard for waterway in respect of channel depth, and levels of weed and extraneous obstructions do not significantly impair navigation. Air draft will not significantly impair navigation.	
C3	Length falls below designated standard and/or subject to weed extraneous obstructions that may impair navigation.	
Environs Standards	Type	Example
E1	High profile area attracting many visitors	Sheffield basin, Little Venice, London Docklands, Gas Street, Grand Union (Stoke Bruerne)
E2	Well used lengths	Grand Union (Cassiobury Park), Trent & Mersey (Stone), Gloucester & Sharpness, Leeds & Liverpool
E3	Lightly used lengths	Montgomery Canal south of Welshpool, Peak Forest Canal, Grantham Canal near Grantham
E4	Rarely visited lengths	Manchester Bolton & Bury, St Helens, Stourbridge canal Fens Branch
Towpath Standards	Description	
T1	Heavily used towpath, typically in a densely populated area or at 'honey pot' location	
T2	Frequently used towpath, typically in urban/rural fringe	
T3	Lightly used towpath, typically in rural locations	
T4	No towpath or towpath badly eroded or not continuous	
T5	Towpath not British Waterways' responsibility (e.g. River Severn)	

Percentage of Total Waterways at Navigation Standard	99/00	00/01	01/02		02/03	06/07
			Target	F'cast		
N1	3%	3%	3%	3%	3%	3%
N2	13%	13%	14%	14%	14%	13%
N3	14%	15%	15%	16%	17%	21%
N4	48%	48%	47%	49%	50%	53%
N5	12%	11%	11%	9%	9%	4%
N6	8%	8%	8%	8%	6%	5%
N7	2%	2%	2%	1%	1%	1%
Percentage of Total Waterways at Channel Standard						
C1	23%	32%	37%	38%	43%	46%
C2	44%	45%	45%	44%	44%	44%
C3	33%	23%	18%	18%	13%	10%
Percentage of Total Waterways at Environs/Facilities Standard						
E1	2%	2%	3%	2%	2%	4%
E2	27%	27%	27%	27%	29%	38%
E3	61%	61%	60%	64%	62%	53%
E4	10%	10%	10%	7%	7%	5%
Percentage of Total Waterways at Towpath Standard						
T1	4%	4%	5%	5%	6%	9%
T2	28%	29%	28%	26%	29%	37%
T3	50%	49%	49%	51%	48%	39%
T4	4%	4%	3%	4%	3%	2%
T5	14%	14%	15%	14%	14%	13%

3.3 Appendix 3 – Business area reporting

(Details to be added)

3.4 Appendix 4 - Balance Sheet

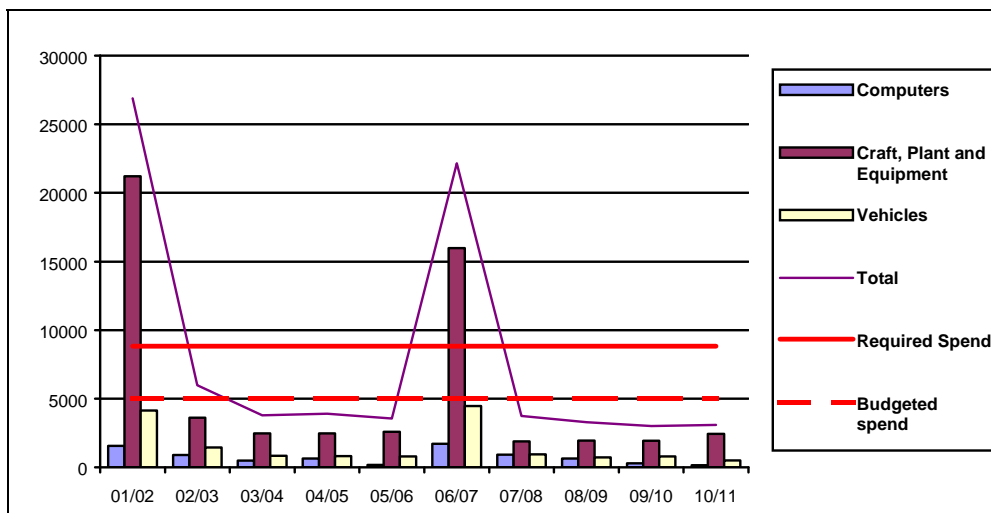
£000	Actual 00/01	Budget 01/02	Actual 01/02	Budget 02/03	Plan 03/04	Plan 04/05
Tangible Assets	349,001	388,800	358,848	378,269	390,878	404,020
Investments	2,554	2,600	3,868	13,387	15,067	16,747
Fixed Assets	351,555	391,400	362,716	391,656	405,945	420,767
Stocks	1,402	500	559	559	559	559
Trade Debtors	13,702	14,000	11,846	11,846	11,846	11,846
Other Debtors	11,631	12,000	47,008	14,408	4,408	4,408
Prepayments & Accrued Income	19,062	19,500	15,057	19,000	19,000	19,000
Cash/Bank	20,924	1,000	26,860	5,000	5,000	5,000
Current Assets	66,721	47,000	101,330	50,813	40,813	40,813
Trade Creditors	(9,975)	(10,000)	(3,919)	(2,981)	(2,342)	(2,359)
Tax & NIC	(1,324)	(1,400)	(201)	(1,400)	(1,400)	(1,400)
Other Creditors	(13,858)	(1,000)	(13,926)	(10,592)	(8,321)	(8,384)
Accruals	(25,912)	(19,000)	(27,339)	(20,794)	(16,336)	(16,460)
Deferred Income	(15,540)	(11,000)	(12,804)	(9,739)	(7,651)	(7,709)
Current Liabilities	(66,609)	(42,400)	(58,189)	(45,505)	(36,050)	(36,312)
NET CURRENT ASSETS	112	4,600	43,141	5,308	4,763	4,501
Provisions for Liabilities	(33,188)	(33,000)	(30,338)	(30,338)	(30,338)	(30,338)
Deferred Capital Grant	(7,251)	(7,300)	(10,469)	(13,936)	(13,136)	(12,336)
CAPITAL EMPLOYED	311,228	355,700	365,050	352,689	367,234	382,594

3.5 Appendix 5 - Cashflow Statement

£000	Actual 00/01	Budget 01/02	Actual 01/02	Budget 02/03	Plan 03/04	Plan 04/05
Operating (loss)/Profit	-475	-80	39,459	-27,795	-280	0
Depreciation	3,778	4,075	4,129	5,158	5,223	5,392
Release of deferred capital grant	-1,864	-1,000	-781	-800	-800	-800
Other Non-cash items	2,756		-2,176			
	4,195	2,995	40,631	-23,437	4,143	4,592
(Increase)/Decrease in stocks	-851	902	843	0	0	0
(Increase)/Decrease in debtors	-3,977	-936	-29,516	32,600	10,000	0
Increase/(Decrease) in creditors	18,367	-24,585	-11,271	-12,684	-9,455	262
Working capital	13,539	-24,619	-39,944	19,916	545	262
Fixed asset expenditure	-44,515	-30,000	-23,018	-53,982	-29,888	-30,054
Grants re fixed assets	2,100	0	4,000	4,267	0	0
Other fixed asset sales	93	200	114	200	200	200
Investment property sales	9,395	18,600	13,197	31,175	25,000	25,000
Deferred property sales			10,956			
Capital Transactions	-32,927	-11,200	5,249	-18,340	-4,688	-4,854
Finance for NLF Loans	0	12,900	0	0	0	0
Net cash movement	-15,193	-19,924	5,936	-21,861	0	0
Opening cash balance	36,117	20,924	20,924	26,860	5,000	5,000
Closing cash balance	20,924	1,000	26,860	5,000	5,000	5,000

3.6 Appendix 6 - Operational Capital Expenditure

The following graph shows the spend required over a ten year period to replace operational assets as they become fully depreciated. The peak in year 1 is caused



due to a large proportion of operational plant currently being fully depreciated.

Historically operational capital expenditure has been of low priority compared to safety backlog and statutory works. However, while this type of expenditure can easily be deferred in the short term much of our operational plant and machinery is now in poor condition and in need of replacement.

We have raised this issue in previous plans and Government funding request and have had some success with DEFRA with capital grant of £4m being provided in 2001/02.

The red line indicates a smoothed ideal capital expenditure plan of £8.8m per annum, which compares to our funded plans of around £5m per annum shown by the red dotted line. To help rectify this problem and close this gap our priorities are:

1. Investigate and agree alternative financing arrangements for operational capital (e.g. leasing arrangements)
2. Introduce a revised process for operational capital planning covering longer term periods.
3. Build investment plans on a planned replacement cycle basis.

4. Appointment of a part time capital accountant to manage the enhanced budgeting and reporting process for CAPEX.

3.7 Appendix 7 - Grant

Grant credited to the P&L account reconciles to the cash grant receivable as follows:

£000	Actual 00/01	Budget 01/02	Actual 01/02	Budget 02/03	Plan 03/04	Plan 04/05
CASH						
DEFRA Grant	64,920	52,600	61,455	71,590	76,590	63,690
SE Grant	0	7,100	8,600	7,100	8,600	8,600
Total Grant	64,920	59,700	70,055	78,690	85,190	72,290
Opening Grant Accrual	(3,200)	(2,200)	(2,200)	0	(4,800)	(4,800)
Closing Grant Accrual	2,200	3,600	0	4,800	4,800	4,800
Deferred Capital Grant Released to P&L	735	1,000	782	800	800	800
Grant Allocated to Capital Expenditure	(2,600)	0	(4,000)	(4,502)	0	0
Grant Credited to P&L Account	62,055	62,100	64,637	79,788	85,990	73,090

3.8 Appendix 8 – Scotland Profit and loss account

£000	Act 00/01	Bud 01/02	Act 01/02	Bud 02/03	Plan 03/04	Plan 04/05
Property Operational	105	135	223	148	154	156
Property Investment	407	372	449	409	421	365
PROPERTY	512	507	672	557	575	521
Craft Licences	457	520	447	518	550	578
Leisure Operators	101	117	93	111	112	112
Retail	15	22	42	1,680	1,705	1,693
Fishing Income	11	16	11	12	13	14
LEISURE	584	675	593	2,321	2,380	2,397
Water Sales	140	171	141	140	140	140
Freight	91	73	91	78	80	84
Telecommunications	0	10	15	0	0	0
Fees & Rechargeable Works	150	44	285	405	37	37
OTHER	381	298	532	623	257	261
Contributions To Non-Statutory Works	31,832	8,901	11,027	1,471	465	450
Government Grant	7,075	7,100	8,600	7,100	8,600	8,600
Total Income	40,384	17,481	21,424	12,072	12,277	12,229
EXPENDITURE						
Payroll	3,357	3,781	3,810	4,443	4,532	4,669
Travel and Accommodation	195	206	277	219	222	226
Company Car Costs	162	164	187	204	197	197
Temporary Staff	21	5	34	8	8	8
Training	49	70	85	82	94	92
Other Staff Related Costs	163	48	190	107	106	108
STAFF RELATED COSTS	3,947	4,274	4,583	5,063	5,159	5,300
Materials	282	222	393	582	591	599
Contract	37,703	10,220	17,386	4,755	2,785	2,546
MATERIALS AND CONTRACT	37,985	10,442	17,779	5,337	3,376	3,145
Vehicles, Plant and Office	688	227	415	345	332	343
Depreciation	262	300	258	694	691	704
Utilities	199	261	320	357	372	389
OPERATIONAL COSTS	1,149	788	993	1,396	1,395	1,436
Rent and Rates	27	59	156	190	197	204
Professional Fees	592	921	564	650	553	554
Claims and Compensation	3	3	17	11	12	12
Office Services	649	603	790	801	816	821
Publicity	211	192	320	181	177	178
Cost of sales	16	17	18	378	350	310
Insurance	38	44	37	66	69	72
Own work capitalised	0	0	-1	0	0	0
Internal charges	184	208	170	154	173	197
OTHER COSTS	1,720	2,047	2,071	2,431	2,347	2,348
Total Expenditure	44,801	17,551	25,426	14,227	12,277	12,229
Operating Profit	-4,417	-70	-4,002	-2,155	0	0
Interest	0	0	240	0	0	0
Net Profit	-4,417	-70	-3,762	-2,155	0	0