

**BRITISH WATERWAYS 3 YEAR PLAN  
2003/04 – 2005/06**

**PRIVATE & CONFIDENTIAL**

## BRITISH WATERWAY'S 3 YEAR PLAN 2003/04 to 2005/06

<b>1</b>	<b>INTRODUCTION .....</b>	<b>1</b>
<b>2</b>	<b>2002-03 FORECAST OUT TURN AGAINST LAST YEAR'S PLAN .....</b>	<b>2</b>
2.1	OVERVIEW OF PROGRESS DURING 2002/03 .....	2
2.1.1	<i>Property</i> .....	2
2.1.2	<i>Leisure</i> .....	2
2.1.3	<i>Visitor surveys</i> .....	3
2.1.4	<i>Waterway regeneration</i> .....	3
2.1.5	<i>Core Waterway</i> .....	3
2.1.6	<i>Ventures</i> .....	6
2.1.7	<i>Corporate Services</i> .....	7
2.2	FINANCIAL OUT TURN .....	9
2.2.1	<i>Income</i> .....	10
2.2.2	<i>Expenditure</i> .....	11
<b>3</b>	<b>2003-04 PLAN .....</b>	<b>13</b>
3.1	CHANGES FROM LAST YEARS' PLAN.....	13
3.2	PLANNED PERFORMANCE AGAINST CRITICAL SUCCESS FACTORS.....	14
3.2.1	<i>Performance Indicators</i> .....	14
3.3	FINANCIAL OVERVIEW .....	15
3.3.1	<i>2003-04 financial overview - Income</i> .....	17
3.3.2	<i>2003-04 financial overview - Expenditure</i> .....	18
3.4	CAPITAL EXPENDITURE .....	19
3.4.1	<i>Commercial capital expenditure</i> .....	20
3.5	MAJOR PROJECTS AND PROGRAMMES.....	20
3.5.1	<i>Leisure</i> .....	20
3.5.2	<i>Core Waterway</i> .....	21
3.5.3	<i>Ventures</i> .....	22
3.6	PEOPLE AND BUSINESS EFFICIENCY .....	23
3.6.1	<i>People</i> .....	23
3.6.2	<i>People - Equal opportunities</i> .....	23
3.6.3	<i>Business Efficiency</i> .....	24
3.6.4	<i>Measuring efficiency</i> .....	25
3.7	RISKS AND OPPORTUNITIES .....	25
3.7.1	<i>Government grant</i> .....	25
3.7.2	<i>Telecoms</i> .....	25
3.7.3	<i>Utility income</i> .....	25
3.7.4	<i>Wood Wharf £1m entry premium</i> .....	26
3.7.5	<i>Regeneration and Restoration Schemes</i> .....	26
3.7.6	<i>Opportunities</i> .....	26
<b>4</b>	<b>BUSINESS AREAS .....</b>	<b>27</b>
4.1	PROPERTY INVESTMENTS.....	27
4.2	LEISURE.....	28
4.2.1	<i>Leisure – more detail on Moorings and Marinas</i> .....	29
4.2.2	<i>Leisure – more detail on Attractions</i> .....	30
4.2.3	<i>Development of new leisure businesses</i> .....	31
4.2.4	<i>Customer service</i> .....	31
4.3	REGENERATION .....	32
4.4	CORE WATERWAY .....	33
4.4.1	<i>Safety</i> .....	34
4.4.2	<i>Safety Backlog and Statutory Arrears</i> .....	34
4.4.3	<i>Water Supply, Management and Flood control</i> .....	34
4.4.4	<i>Waterway standards</i> .....	35
4.4.5	<i>Freight</i> .....	35
4.5	VENTURES .....	36
4.5.1	<i>ISIS</i> .....	36
4.5.2	<i>Water Grid</i> .....	37
4.5.3	<i>Wood Wharf, Docklands</i> .....	38

4.5.4	<i>Waterscape</i> .....	38
4.6	CORPORATE SERVICES .....	40
<b>5</b>	<b>WIDER OBJECTIVES AND CORPORATE SOCIAL RESPONSIBILITY</b> .....	<b>41</b>
	<b>APPENDIX 1 – GOVERNMENT GRANT</b> .....	<b>44</b>
	<b>APPENDIX 2 - BW ACTIVITIES</b> .....	<b>45</b>
	<b>APPENDIX 3 – DEFRA GRANT</b> .....	<b>50</b>
	<b>APPENDIX 4 – SUMMARY SCOTLAND PLAN</b> .....	<b>56</b>
	<b>APPENDIX 5 – PRIORITY VISITOR SITES</b> .....	<b>60</b>
	<b>APPENDIX 6 – FREIGHT STRATEGY</b> .....	<b>61</b>



## **1 INTRODUCTION**

This document presents British Waterways plans covering the year's 2003/04 to 2005/06. It is consistent with the Strategic Business Plan approved by the Board in January 2003.

Separate plans have been produced for DEFRA covering the English and Welsh waterways and for the Scottish Executive covering waterways in Scotland.

Whilst this is a three year plan, due to a fundamental review of activities in DEFRA, grant funding has only been committed for the first year of the plan. The level of grant funding from the Scottish Executive for each year of the plan is also unresolved.

Section 2 concentrates on progress against last year's plan. Section 3 shows our plans for 2003-04, where there is greater certainty on the total level of government grant.

This three year plan has been prepared within the context of 'Our Plan for the future – 2002 to 2006' which is based upon achieving the objectives as set out in 'Waterways for Tomorrow', the Westminster governments policy statement on inland waterways. The plan is also consistent with 'Scotland's Canals an asset for the future' and draft Welsh vision document.

Section 4 shows our plans by business area including more detailed performance indicators and focus on profitability and economic value created.

Details on our wider objectives and corporate social responsibilities are explained in Section 5. A detailed analysis of how our objectives are aligned with those of DEFRA are shown in appendix 2 and appendix 3 details our DEFRA funding request. Both these appendices are part of the plan presented to DEFRA.

This document should be read in conjunction with 'Our plan for the future' an updated version of which will be published in May 2003.

## **2 2002-03 FORECAST OUT TURN AGAINST LAST YEAR'S PLAN**

### **2.1 Overview of progress during 2002/03**

#### **2.1.1 Property**

Property has continued to be a stable source of income. Most progress however has been with the establishment of a property PPP, Isis in October 2002 with partners AMEC Developments and Igloo Regeneration Fund (managed by Morley Fund Management).

Isis is a major joint venture for property and we have given it options on 11 sites from our property portfolio. Isis is a public private partnership, which wholly supports our ethos to develop waterside sites on the premise that they offer both social and environmental benefits. Initial urban developments will include 8,000 new homes and will support up to 9,500 new jobs.

#### **2.1.2 Leisure**

The recently opened visitor centres at Standedge Tunnel, Anderton Boat Lift and the Falkirk Wheel have exceeded the forecast throughput of visitors and our plans to identify and invest in more visitor sites are progressing.

In the past year we consulted user groups and individual boaters about the best way to structure boat licences to meet customer needs. The results of the review were published in January 2003 and will become effective from 1 April 2003.

In 2002-03 we reviewed the pricing of our managed mooring sites against the market. The review resulted in some significant increases in mooring fees at some sites where our prices were out of line with the market. The average increase in mooring fees at BW sites was 6%.

During the year we also opened two new marinas on our own sites. In March 2003 we opened the 120 berth Packet Boat Marina in Uxbridge, Middlesex. The site also houses a pub, café and restaurant, visitor centre, hire boat and trip boat base, and a children's farm. In November 2002 we took over management and ownership of a new mooring basin from Fairview Homes at Apsley Marina, in Hertfordshire, which is part of a £85 million mixed development scheme.

It is not only restored waterways that add value to communities, the whole of the 200-year old network is an important public resource in its own right. With a secure income and infrastructure in place we feel confident that we can increase the number of visitors to our waterways. In this past year we have been working to ensure each visit is a quality one and that people's satisfaction and enjoyment levels remain high.

### **2.1.3 Visitor surveys**

We carry out regular surveys in order to understand and monitor our visitor enjoyment levels and needs. During 2002 we completed a national towpath survey which told us that 93% of visitors were satisfied or very satisfied with the overall enjoyment of their trip and that 88% were satisfied or very satisfied with the overall upkeep of the waterways. These results are good, but we will endeavour to improve on them where we can. We will also improve the timeliness and independence of our surveys, which will include boaters, towpath users and attraction visitors, therefore enabling us to place greater reliance on the results.

### **2.1.4 Waterway regeneration**

Our income in 2002-03 was down by 34% to £28.3m. This was in line with our plan and reflects the successful conclusion during the year of all the engineering work required to complete the building of our six year 'Tranche 1' restoration programme which began in 1996.

We are constantly looking to create new partnerships to regenerate waterside locations. The following provides a successful example during 2002:

The Commonwealth Games came to Manchester in July 2002 and we identified the Ashton Canal as a key pedestrian link to the Stadium. Consequently we invested in improving the waterways environment by providing spaces to meet and relax, enhancing the towpath and providing seating for the thousands of boaters and pedestrians that used the canals whilst seeing the games. We are now in the process of facilitating further investment and regeneration around this area of East Manchester including developing 1,500 new homes, 3,000 meters of canalside, 50 moorings and new canalside facilities.

### **2.1.5 Core Waterway**

#### **2.1.5.1 Safety for visitors**

We produce literature and videos that help provide our customers with safety guidance and information. The Boater's Handbook offers clear and simple advice on safe boating. It has been developed in partnership with the Environment Agency and the British Marine Federation, and was sent out to over 40,000 boaters. We also supply copies free of charge to hire boat operators and encourage them to send a copy to each party booked in advance of their holiday. In December 2002 we were delighted to learn that it had won the Plain English Award 'Document of the Year' and we are now in the process of making a video to complement it. Our Wild Over Waterways (WOW) initiative for young people includes a waterside safety pack that encourages older children to do their own risk assessments when visiting waterways. We work alongside Ragdoll productions, the producers of 'Rosie and Jim' to design and distribute safety information to the under fives. All these safety materials are also published on our website.

### 2.1.5.2 The Boat Safety Scheme

Improvements to the Boat Safety Scheme (BSS), the joint owned programme with the Environment Agency, to prevent fire, explosion and pollution have been made during 2002/03. New examination paperwork was introduced and most recently a team of examiner quality assessors have been contracted, trained and then deployed.

The scheme also stepped up its communications activities this year with the assistance of a new communications manager. BSS staff and authorised examiners attended four major shows and leaflets to address the prime dangers of fire and carbon monoxide poisoning were produced. The leaflets, put together in partnership with other relevant organisations such as the British Marine Federation, have been distributed to over 60,000 boat owners on Britain's inland waters.

### 2.1.5.3 Safety backlog and statutory arrears

Safety backlog works have progressed faster than planned supported by improved partnership working relationships with contractors. These are referred to as omnibus contracts. The balance of the outstanding safety backlog works at the end of 2002/03 is forecast to be ahead of target at £16.1m.

Statutory arrears works have also been undertaken enabled by additional grant of £30m spread over the three years 2001/02 to 2003/04. This grant has also enabled us to improve our water control and monitoring systems (SCADA). These essential works will allow the Watergrid concept to be realised. The following table shows how the additional £30m of grant has been spent to date along with our plans for 2003/04.

£m	01/02	02/03	03/04	Total
Statutory arrears	3.6	7.5	12.4	23.5
SCADA	1.4	2.5	2.6	6.5
	<b>5.0</b>	<b>10.0</b>	<b>15.0</b>	<b>30.0</b>

### 2.1.5.4 Make a difference projects

Following the receipt of £46.9m from Canary Wharf in 2001/02, £8.9m was allocated to improving customer facilities in key areas such as access and sanitation where standards were unacceptable.

These works are forecast to be completed to target. The key outcomes from the make a difference projects will be:



Project Outcomes	Number	£m
Number of new or improved sanitary blocks	40	3.4
Towpaths improvement projects	23	1.3
Carparks	7	0.2
Interpretation points	12	0.5
Visitor moorings and navigation facilities	36	1.5
Improved security (number of sites)	6	0.3
Other small visitor improvement projects	41	1.7
		<b>8.9</b>

The make a difference projects were designed to improve visitor facilities, thus encouraging more visitors to our waterways. With more visitors the viability of waterway businesses is improved.

#### 2.1.5.5 Freight

Our long-term strategic objective remains to double the volume of freight carried on our waterways by 2010. We have prepared a freight strategy that addresses the quality of our infrastructure and operators, European legislation, revised freight facilities grant regimes, and opportunities in waste and aggregates. Our first priority is to deal with safety issues around unregulated freight craft. We have worked with the Marine Coastguard Agency around this issue to create boat standards and crew competencies.

This year we also introduced a simplified toll structure for freight carriage and in the future we will concentrate our efforts on the mineral and waste markets.

#### 2.1.5.6 Environment and Heritage

2002/3 saw a slight change in focus on our environmental and heritage objectives with a desire to see them more closely integrated within a business wide approach to sustainable development. A review of all our business activities to assess our performance with respect to environment and heritage, social and economic position has taken place and a strategy, actions and indicators to measure future performance are being put in place.

The Kennet and Avon canal restoration is being used as a model for testing the use of sustainability indicators to measure impacts on heritage, the environment and local communities, while a partnership with the Countryside Agency has funded the appointment of a project manager to review opportunities for sustainable transport within the canal corridor. Both pieces of work will be used to inform other restoration projects.

The skilled based in house training programme, which achieves City and Guild qualifications for our Engineering supervisors, met target numbers fully and will continue to the end of 2003. Over 100 visits were paid to the waterways by heritage and environmental professionals to mentor the new skills being put into practice. Considerable effort has been made to influence key legislation for water and waste, in order to optimise and protect BW statutory duties, while the outcome of English Natures national review of the condition of SSSI's is awaited with interest.

BW issued its planning policy guidance to all Local authorities adjoining BW property across England and Wales, encouraging a fresh look at waterways in line with Waterways for Tomorrow. A similar document for Scotland is being developed.

#### 2.1.5.7 Education

During 2002 we launched WOW (Wild Over Waterways) a partnership with the Inland Waterways Association and The Waterways Trust. WOW has been working with children, schools and parents all over the country. Linked to the national curriculum, 26 teaching resources, four activity packs and 10 information packs were produced last year. The WOW website was launched in October 2002 and currently attracts over 4,500 hits per month. WOW attended two major waterway festivals and was successful in obtaining a grant from the Heritage Lottery Fund for £49,000 to run a number of events over the next two years.

The purpose of the partnership is to encourage young people to become interested in waterways and to pass on to the next generation an understanding of the environment, history and heritage of the waterways. The WOW initiative also helps:

- young people to value the waterways helping to reduce vandalism, graffiti and other acts of anti-social behaviour
- young people to appreciate the danger of water, helping to reduce accidents
- build a customer base for the future who will utilise the waterways for leisure purposes and support waterway related businesses.

#### 2.1.6 Ventures

The establishment of Isis PPP and Watergrid PPP have been finalised during 2002/03.

We formed Watergrid Limited in partnership with the water services and infrastructure management group Anglian Water Limited, utility provider Bristol Water Holdings and Partnerships UK. It will include bespoke water treatment, wastewater treatment, recycling services and environmental consultancy based on individual customer needs. Watergrid is projected to invest £135m over the next ten years, which will be funded by our partners and bank borrowings and is expected to generate a turnover in excess of £50m per annum within the decade.

The venture will have positive impacts on the environment as it will recycle used water, treat waste water and use surplus water so that abstraction from natural rivers and streams can be reduced. Greater flows of water within canals will also improve oxygen levels, helping to sustain our aquatic plants and wildlife.

In London we have set up a joint venture, H<sub>2</sub>O Urban Ltd, with a local developer and will develop a number of waterside sites throughout the capital. We are in the planning stages of a major £20 million development of City Road Basin with Miller Developments and are working with Chelsfield on our Paddington Basin business barges. In the past year we have also made significant investments in our land holdings in London Docklands.

Our drive to increase visitor numbers has prompted us to look at new methods and channels to promote waterways. In the last year we have set up a subsidiary company 'Waterscape' to promote all inland waterways under one banner. Waterscape will predominately be an online vehicle and the website will offer a wide range of waterway-related information, goods and services. The site will be launched in the Summer of 2003 and will focus on being profitable and attracting new visitors to the waterways.

## **2.1.7 Corporate Services**

### **2.1.7.1 Clearwater**

We have been assessing and analysing our business processes, and this year have been working hard to develop and implement new and better systems and processes. Our people have been working alongside partners, Logica, to implement a state-of-the-art computer system, SAP. To be launched in April 2003, SAP will replace our existing asset management, procurement, finance, personnel and payroll, customer relationship management, property, projects and business information systems. SAP will make sure our data is more up-to-date, integrated and online. This investment in our 'back office' will enable our people to work more efficiently, and therefore spend more time with customers. We have put a vigorous training programme in place and between January and April 2003 will have trained over 1,000 members of staff.

Financial and efficiency benefits from the new systems will start to be realised during 2003/04. Plans to deliver the full business benefits of the project are now being identified and will be realised from 2004/05 onwards.

### **2.1.7.2 People**

Quality people enable us to be successful and it is a credit to our people that in March 2003 we secured a place on The Sunday Times 100 Best Companies to Work for List. This survey is independently adjudicated and we are the first public sector body to enter the list.

Staff surveys have shown that our people continue to be in the top quartile of companies for their satisfaction and motivation levels. We have continued to work closely with Unison and the Transport and General Workers Union in staff-related matters.

## 2.2 Financial Out turn

The following table shows forecast financial out turn against budget and 2001/02

£m	Actual	Budget	F'cast
INCOME	2001/02	2002/03	2002/03
Property Investments	24.1	22.6	23.2
Leisure	15.6	19.2	18.6
Regeneration	43.0	29.7	28.3
Core Waterway	28.3	25.7	33.4
Ventures	0.0	1.5	6.2
<b>TOTAL DIRECT INCOME</b>	<b>111.0</b>	<b>98.7</b>	<b>109.7</b>
Government Grant	64.6	80.1	82.3
<b>TOTAL INCOME</b>	<b>175.6</b>	<b>178.8</b>	<b>192.0</b>
<b>EXPENDITURE</b>			
Payroll	52.3	57.9	57.6
Staff Related Costs	9.1	11.4	12.5
Materials	7.2	5.5	6.2
Contract	83.4	93.2	90.8
Operational Costs	8.3	9.7	10.8
Rent, Rates & Utilities	3.3	4.4	4.5
Professional Fees	11.5	12.2	12.4
Write down of Fixed Assets	0.0	0.0	1.7
Outsourcing	0.0	2.0	2.0
Office Services	5.8	4.5	4.8
Publicity	2.6	2.6	3.0
Interest	1.5	1.2	0.0
Own Work Capitalised	(6.4)	(1.2)	(1.1)
Other Costs	4.4	3.2	5.1
<b>TOTAL EXPENDITURE</b>	<b>183.0</b>	<b>206.6</b>	<b>210.3</b>
<b>CW Income</b>	<b>46.9</b>	<b>0.0</b>	<b>0.0</b>
<b>Transfer to reserves</b>	<b>11.5</b>	<b>1.0</b>	<b>1.0</b>
<b>NET PROFIT / (LOSS)</b>	<b>28.0</b>	<b>(28.8)</b>	<b>(19.3)</b>

comparison figures.

## 2.2.1 Income

### 2.2.1.1 Property Investments £23.2m (02/03 budget £22.6m)

Forecast income is higher than budget principally due to better than planned rent reviews in London and the North East where the property market was buoyant. This is partially offset by lower rental income from sites being prepared for development eg Gloucester.

### 2.2.1.2 Leisure £18.6m (02/03 budget £19.2m)

2002/03 was the first year of revisions to moorings prices which has resulted in additional revenue from this source. This has been reduced partly by lower than expected marina occupancy rates and delayed opening of new mooring developments. Lower than expected income from the Falkirk visitor centre is the main cause of the variance from budget.

The Anderton boatlift has been in operation for the whole year, utilising a temporary visitor centre that was not anticipated in the budget.

### 2.2.1.3 Regeneration £28.3m (02/03 budget £29.7m)

Forecast income from 3<sup>rd</sup> party funded regeneration projects is slightly below budget. The reduced level of activity in this area from previous years was expected following the completion of major millennium funded projects.

The following expenditure on major schemes is forecast for 2002/03:

Project Name	Budget £m	Forecast £m	Comments
Rochdale canal restoration	11.1	9.3	<b>Rochdale Canal:</b> opened on programme in July 2002.  Reduced expenditure in 02/03 due to works being carried out in advance of plan in 01/02
London SRB	1.8	1.8	
Kennet & Avon HLF	1.3	1.3	
Ribble Link	-	1.2	<b>Ribble Link:</b> opened in July 2002
Millennium Link	1.5	1.5	
Anderton Boat Lift	1.0	1.0	
Cotswolds	0.9	0.6	
Bedford to Milton Keynes	0.8	0.2	<b>Bedford to Milton Keynes:</b> Anticipated expenditure to progress the early stages of the project not required.
	<b>18.4</b>	<b>16.9</b>	
Other projects	11.3	11.4	
	<b>29.7</b>	<b>28.3</b>	

#### 2.2.1.4 Core Waterway £33.4m (02/03 budget £25.7m)

Core waterway income includes all income derived from the core waterway asset. The largest elements are wayleaves, operational property rents and water sales. The forecast higher than budgeted income is principally due to income from Severn Trent Water for the payment for surface water discharges into our canals following successful conclusion of the long running legal dispute with Severn Trent.

#### 2.2.1.5 Ventures £6.2m (02/03 budget £1.5m)

Income from ventures is forecast to be £4.7m higher than budget due to an additional £1m of income from Isis offset by reduced dividend income from other ventures and income from Ultramast of £4m for contractual damages following our objections to the capital reconstruction of Ultramast.

#### 2.2.1.6 Net result

To comply with Accounting Standards, backdated income of £6m from Severn Trent Water has had to be recognised in 2002/03 although the cash will not be received until 2003/04. The conclusion of the agreement with Ultramast took place too close to the financial year-end for plans to be put in place for it to be spent and this income will be carried forward to 2003/04. The 2002/03 net result is therefore improved (lower loss) but there is a corresponding loss created in 2003/04 when the cash will be spent.

### 2.2.2 Expenditure

#### 2.2.2.1 Payroll and Staff related costs £70.1m (02/03 budget £69.3m)

Payroll and staff related costs are forecast £0.8m above budget. This is due to difficulties in recruitment resulting in higher recruitment fees and additional agency costs. Travel costs are also higher associated with completing the higher than normal amounts of major works.

#### 2.2.2.2 Materials and contract £97m (02/03 budget £98.7m)

Materials and contract expenditure is largely in line with budget. Additional grant from the Scottish Executive has meant that expenditure in Scotland is higher than budget but the re-phasing of other works from 2002/03 into 2003/04 has offset this.

#### 2.2.2.3 Professional fees £12.4m (02/03 budget £12.2m)

Professional fees are forecast slightly higher than budget due to Waterscape costs being budgeted as contract but actual expenditure being on professional fees. In addition higher than anticipated professional fees have been incurred on the preparation of the development case for Wood Wharf in London.

2.2.2.4 Write down of fixed assets £1.7m (02/03 budget £0.0m)

As part of our annual valuation exercise we have identified a number of areas of impairment where a write down is required to meet accounting regulations. We anticipate the cost of write-downs to be £1.7m.

2.2.2.5 Office Services £4.8m (02/03 budget £4.5m)

Office services costs are forecast higher than budget due to a range of additional costs the largest of which relates to unbudgeted costs for pension fund and EPOS computer software.

2.2.2.6 Publicity £3.0m (02/03 budget £2.6m)

Publicity costs are higher than planned due to additional costs associated with the opening of newly restored canals (for example the Ribble and Rochdale canals) and events associated with Commonwealth Games related publicity.

2.2.2.7 Net Interest payable £0.0m (02/03 budget £1.2m)

Net interest payable is forecast £1.2m less than budget principally due to additional earnings on higher balances held on deposit and achieving higher than planned interest rates following adoption of a new approach to short term deposits. These cash balances relate to disposal proceeds awaiting re-investment. There is also £0.2m of unbudgeted interest receivable in Scotland associated with the Edinburgh Quay development.

2.2.2.8 Cost of sales and other costs £5.1m (02/03 budget £3.2m)

The main reason for increased costs is due to a £1.5m provision for contract 6 on the millennium link and higher than planned retail turnover at Sawley marina. The associated additional cost of sales was £0.3m. A range of other small expenditure variances account for the remaining difference.



### **3 2003-04 PLAN**

#### **3.1 Changes from Last years' plan**

A number of events have occurred during the last year which have impacted on the business and meant that certain assumptions and estimates made in last years plan for 2003/04 need to be updated.

The following changes are relevant:

- While income from Severn Trent was included in last years plan the timing of the cash receipt means that the backdated element of the income will be recorded in 02/03 but not spent until 2003/04. Additional income from Ultamast in 2002/03 will also be carried forward into 2003/04 to fund expenditure in that year. These two transactions reduce the loss that was budgeted for the 2002/03 financial year and increase the planned loss for 2003/04.
- Tranche 2 regeneration schemes have been re-phased which accounts for a significant reduction in income from this source in 2003/04. This re-phasing reflects the latest information we have on the likelihood of potential funders to provide us with the income required for these schemes to go ahead. There is an equivalent reduction in expenditure assumptions so there is no 'bottom line' impact.
- Establishment of a property JV with Peel Holdings in Gloucester will require the transfer of some of our property to the JV vehicle in return for equity. This will result in £400k of income being transferred to the JV from 2003/04 onwards and lost from British Waterways accounts. This reduction is more than covered by the return on the venture but these greater benefits will not be received until after this plan period. In the meantime lower property income is shown.
- A JV for the Wood Wharf site is expected to be established during 2003/04 and a £1m entry premium has been assumed receivable from the JV partner. (see also 3.7 Risks)

## 3.2 Planned Performance against Critical Success Factors

The critical success factors for the delivery of this three-year plan are:

### Critical Success Factors

- Backlog eliminated by March 2004 and Statutory Arrears balance £127.7m by March 2006.
- Put in place contingency plans to enable the absorption of potential reductions in government grant as well as managing this potential lost income through the establishment of formal contractual relationships and greater commercial freedoms.
- Improved safety in particular when compared to benchmarks for similar industries.
- Realisation of Clearwater benefits.
- Implementation of results from organisation structure review.
- Establish a plan to realise the benefits from Wood Wharf.
- Waterscape, Isis and Watergrid ventures to perform in line with business plans.
- Grow visitor numbers and satisfaction levels through continued investment in visitor facilities.
- Achieve sustainable development priorities.
- Achieve £3m of new income per annum from new business opportunities by year three.
- Encourage the recruitment of a diverse range of people from different backgrounds so that our people appropriately reflect the communities within which we operate.

### 3.2.1 Performance Indicators

	01/02 Actual	02/03 Budget	02/03 F'cast	03/04 Budget	04/05 Plan	05/06 Plan
<b>Safety backlog &amp; Statutory arrears</b>						
Safety backlog balance (£m)	39.9	24.5	16.1	0	0	0
Statutory arrears (£m)	181.0	167.9	173.3	157.5	142.9	127.7
<b>Overarching Principles</b>						
Number of listed structures on local authority risk registers*	N/A	N/A	120	108	60	0
% implementation of BW bio-diversity action plan	10%	20%	20%	50%	80%	100%
<b>Income</b>						
Total Direct Income (£m) (including regeneration)	111.0	98.7	109.7	101.4	122.7	137.0
Simple return from investment property	6.3%	7.1%	7.3%	7.7%	7.9%	7.9%
Craft licence evasion	3.4%	3.0%	3.0%	2.9%	2.8%	2.6%
<b>Waterway Standards</b>						
Navigation	96%	98%	98%	98%	99%	99%
Channel	82%	86%	90%	92%	95%	95%
Environs	92%	95%	95%	95%	95%	95%
Towpath	97%	97%	98%	98%	99%	99%
<b>Customer Satisfaction (with overall upkeep)</b>						
Boaters**	-	92%	93%	-	93%	-
Walkers	88%	91%		92%	93%	93%
<b>People</b>						
Days absence per employee p.a.	8	7	8	7	6	6
Employee turnover (target range)***	8%	<16%	7%	5-10%	5-10%	5-10%
Employee satisfaction ****	87%	-	-	90%	-	90%

\* Listed structures considered at risk by local authorities – a wide range of structures is included

\*\*Survey conducted bi-annually – although note that improved customer satisfaction indicators are being developed which will replace the above indicator.

\*\*\* Employee turnover should not to go above 10% but as some turnover is considered healthy it should not to go below 5%.

\*\*\*\* Employee satisfaction is the proportion of employees who respond positively to the overall satisfaction question on the employee survey (i.e satisfied or very satisfied).

### 3.3 Financial Overview

The following table shows the planned income and expenditure and year on year net profit

£m	Actual	Budget	F'cast	Budget	Plan	Plan
INCOME	2001/02	2002/03	2002/03	2003/04	2004/05	2005/06
Property Investments	24.1	22.6	23.2	22.9	26.5	26.4
Leisure	15.6	19.2	18.6	23.4	26.2	28.6
Regeneration	43.0	29.7	28.3	17.5	33.9	45.8
Core Waterway	28.3	25.7	33.4	36.6	30.9	31.2
Ventures	0.0	1.5	6.2	1.0	5.2	5.0
<b>TOTAL DIRECT INCOME</b>	<b>111.0</b>	<b>98.7</b>	<b>109.7</b>	<b>101.4</b>	<b>122.7</b>	<b>137.0</b>
Government Grant	64.6	80.1	82.3	91.5	73.5	74.8
<b>TOTAL INCOME</b>	<b>175.6</b>	<b>178.8</b>	<b>192.0</b>	<b>192.9</b>	<b>196.2</b>	<b>211.8</b>
<b>EXPENDITURE</b>						
Payroll	52.3	57.9	57.6	62.4	64.3	66.5
Staff Related Costs	9.1	11.4	12.5	8.4	8.1	8.2
Materials	7.2	5.5	6.2	5.5	5.6	5.6
Contract	83.4	93.2	90.8	81.4	66.2	73.7
Operational Costs	8.3	9.7	10.8	11.1	12.4	13.4
Rent, Rates & Utilities	3.3	4.4	4.5	5.1	5.3	5.4
Professional Fees	11.5	12.2	12.4	10.2	15.2	20.2
Write down of Fixed Assets	0.0	0.0	1.7	0.0	0.0	0.0
Outsourcing	0.0	2.0	2.0	2.1	2.9	2.9
Office Services	5.8	4.5	4.8	5.9	5.5	5.4
Publicity	2.6	2.6	3.0	3.9	3.6	3.3
Interest	1.5	1.2	0.0	2.2	2.5	2.5
Own Work Capitalised	(6.4)	(1.2)	(1.1)	(0.9)	(0.9)	(0.9)
Other Costs	4.4	3.2	5.1	4.3	5.5	5.6
<b>TOTAL EXPENDITURE</b>	<b>183.0</b>	<b>206.6</b>	<b>210.3</b>	<b>201.6</b>	<b>196.2</b>	<b>211.8</b>
<b>CW Income</b>	<b>46.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Transfer to reserves</b>	<b>11.5</b>	<b>1.0</b>	<b>1.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>NET PROFIT / (LOSS)</b>	<b>28.0</b>	<b>(28.8)</b>	<b>(19.3)</b>	<b>(8.7)</b>	<b>0.0</b>	<b>0.0</b>
<b>CUMULATIVE NET PROFIT / LOSS</b>	<b>28.0</b>	<b>(0.8)</b>	<b>8.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

for the three years beginning April 2003.

Note: (1) Government grant has not yet been confirmed for 2004/05 and 2005/06 (see appendix 2). (2) Ventures income is higher in 2004/05 as higher dividend income from Isis is expected in that year.

Other costs forecast of £5.1m includes a provision of £1.5m in respect of contract 6 on the millennium link project.



### **3.3.1 2003-04 financial overview - Income**

#### **3.3.1.1 Property Investments £22.9m (2002/03 £23.2m)**

Income from property investments is planned to decrease by £0.3m. This is due to the transfer of properties and associated income to ISIS and other JVs (e.g. Gloucester Docks with lost income of £400k p.a.). Slower investment of capital throughout 2002/03 resulting in forecast capital carry over of £20m will also have an impact on income in 2003/04. Underlying growth in rents will be achieved through planned rent reviews and continuing our strategy of disposing of low performing properties and re-investing in properties with better returns.

#### **3.3.1.2 Leisure £23.4m (2002/03 £18.6m)**

Income from craft licences, moorings and other leisure businesses are expected to increase by £4.8m. This is partly due to inflationary prices increases but also due to planned commercial investments of £9m in new marinas and the development of existing sites enabling higher rates to be charged.

#### **3.3.1.3 Regeneration £17.5m (2002/03 £28.3m)**

Income is expected to fall by £10.8m in 2003/04 reflecting a lull in activity before major tranche 2 schemes become established. As tranche 2 schemes become established in 2004/05 and 2005/06 income is planned to increase again. (see 3.7 Risks)

#### **3.3.1.4 Core Waterway £36.6m (2002/03 £33.4m)**

Core Waterway income is £3.2m higher than the 2002/03 forecast and significantly higher than the underlying level of around £25m per annum, indicated by the 2002/03 budget. This includes the receipt of £2.5m Severn Trent income in 2003/04 plus backdated income of £8m from electricity companies expected in the year. This income from electricity companies has not yet been confirmed. There may also be some phasing of the cash receipt over a number of years, which will mean that our expenditure plan will need to be revised accordingly. Agreement on the level of income for surface water discharges (including Severn Trent Water income) post 2004/05 has not yet been agreed. We have assumed that the Severn Trent income will continue and there will be additional income of £1.5m p.a. from other water companies from 2004/05.

2004/05 and 2005/06 also includes speculative income for operational property premiums of £1.5m.

#### **3.3.1.5 Grant £91.5m (2002/03 £82.3m)**

Grant income increases by £9.2m. This is a result of the receipt of the final instalment of the additional £30m DEFRA grant for statutory arrears works. An adjustment was also made to

the closing grant accrual for 2002/03 following receipt of the Severn Trent backdated income.

Previously anticipated inflationary increases in grant from DEFRA will not be received in 2003/04 however we have still included such increases in future years. Budgeted Scottish Executive grant is £10.4m, which consists of £8.4m of approved grant plus £2m of further grant which we believe is likely to be allocated during the year.

Grant for 2004/05 and 2005/06 has not been confirmed. Appendix 3 shows our grant request for these years. (Appendix 1 shows a summary of government grant and how the cash grant received reconciles to the grant shown in the above profit and loss account).

### 3.3.2 2003-04 financial overview - Expenditure

#### 3.3.2.1 Payroll and staff related Costs £70.8m (2002/03 £70.1m)

2002/03 expenditure includes one off expenditure of £2m for voluntary early retirements. Excluding this payroll and staff related costs are planned to increase by 5%. Average merit pay awards and other staff related cost increases account for 3%, leaving 2% explained by business growth.

The following business areas account for the increase:

Posts Within Approved Business Case For Expansion	Additional Posts	% Forecast at 31 March 03
Canal time (Sawley Marina)	6	
Anderton operations centre	14	
White Bear Marina catering staff	4	
Standedge visitor centre catering staff	2	
Waterscape (net additional posts)	11.5	
Midlands dredging team	2	
Water management (supporting SCADA and Watergrid)	2	
	<b>41.5</b>	<b>2.0%</b>
Existing vacant posts expected at the year-end	14	0.7%
	<b>55.5</b>	<b>2.7%</b>

Note: Waterscape will require 13 additional posts 1.5 of which will be carried out by existing employees.

By the end of the summer of 2003 work will be completed to identify efficiency savings to be realised from the Clearwater project. Payroll and staff related cost savings of £1.25m from 2004/05 have been built into the plan.

#### 3.3.2.2 Materials and contract costs £86.9m (2002/03 £97m)

2002/03 included increased expenditure on one off 'make a difference projects' and additional statutory arrears expenditure financed from the Canary Wharf income received

during 2001/02. In addition contract costs are less in 2003/04 due to a lower level of activity on regeneration projects.

#### 3.3.2.3 Operational Costs £11.1m (2002/03 £10.8m)

Planned operational costs are £0.3m higher due to increased costs associated with the acquisition of replacement operational plant and equipment.

#### 3.3.2.4 Professional fees £10.2m (2002/03 £12.4m)

There will always be a direct correlation of the amount of expenditure on professional fees and the volume of work on major works (including backlog and statutory arrears and MAD projects) and regeneration projects.

The additional income from Canary Wharf in 2001/02 financed large volumes of major works in 2002/03. The volume of work is planned to reduce in 2003/04 and then pick up again in the subsequent years as tranche 2 regenerations schemes are planned to start.

#### 3.3.2.5 Office services £5.9m (2002/03 £4.8m)

Increases in office services are due to additional software costs largely due to the agreed Waterscape business plan including one off payments for the design and build of the waterscape internet platform in 2003/04.

#### 3.3.2.6 Publicity £3.9m (2002/03 £3.0)

The increased publicity expenditure planned for 2003/04 is largely accounted for by Waterscape (£0.8m).

#### 3.3.2.7 Net Interest payable £2.2m (2002/03 £0.0m)

Net interest payable will be more than the forecast for 02/03 as 02/03 included £1.3m of interest receivable on the Canary Wharf income owed plus additional income from disposal proceeds held for re-investment.

#### 3.3.2.8 Cost of sales and Other costs £4.3m (2002/03 £5.1m)

The main reason for increased costs is due to a £1.5m provision for contract 6 on the millennium link. Cost of retail sales accounts for £1.5m of the above and insurance premiums around £1.4m. The increases from the previous year is due to higher cost of sales which is more than matched by increased sales income. In 2004/05 and 2005/06 cost of sales associated with the sale of housing developments are also included in this expenditure category.

### 3.4 Capital Expenditure

During 2002/03 operating lease arrangements have been put in place to enable certain operational plant and machinery to be leased as opposed to outright purchase. This will

enable assets to be acquired more quickly and help to replace the large amount of plant, particularly floating plant, which is currently life expired.

### 3.4.1 Commercial capital expenditure

Commercial capital expenditure will be financed predominantly from disposal proceeds and reinvested in investments, which create more economic value and help to achieve our strategic objectives. Disposals will predominately be from the investment and development property sectors while investment will be spread across the full range of investment types with the objective of investment in:

- Development properties to generate capital growth, achieve regeneration objectives and create a pool of assets for future disposal.
- Investment and leisure properties for earned income.
- Leisure facilities such as moorings, marinas and attractions to generate income and provide waterway related facilities to customers.

The following capital expenditure is planned:

	01/02	02/03	02/03	03/04	04/05	05/06
	Actual	Budget	F'cast	Budget	Plan	Plan
Commercial investment	15.2	46.5	31.6	44.8	33.1	31.1
Operational assets	7.8	7.8	7.5	4.3	4.8	4.5
<b>Total capital expenditure</b>	<b>23.0</b>	<b>54.3</b>	<b>39.1</b>	<b>49.1</b>	<b>37.9</b>	<b>35.6</b>

Note: Operational capital expenditure is financed from internal resources (predominantly depreciation and other non-cash flow charges to the p&I account). All commercial investment is financed from commercial disposal proceeds including cash carried forward from previous years.

#### Capital expenditure priorities

- Replace old and life expired operational floating plant and machinery.
- Establish the corporate requirements from the Wood Wharf development.
- Economic value creation plans used to set 2004/05 capital allocations.

## 3.5 Major Projects and Programmes

### 3.5.1 Leisure

The 200 year old network has numerous sites of historic, scientific and social interest. We have begun to exploit the high latent value of these sites as visitor destinations, where people will come to enjoy the experience and spend their money.

Many of our reservoirs for example have great potential for development as nature reserves. We need to enhance the visitor experience at our most important sites by providing better facilities and improved information. In many cases this will entail relatively minor



expenditure through the waterway budget but some sites will justify investment of commercial capital. We have identified 20 priority sites with the greatest potential to increase the visitor experience, including those, which have the potential to generate new income streams. These sites will be developed over the coming years to enhance their attractiveness to visitors.

**Leisure priorities**

- Implement our day visitor strategy for priority sites.
- Incorporate WOW education (see below) activities into BW leisure events.

### **3.5.2 Core Waterway**

The reliability and security of our network underpins all our businesses. Confidence in the waterway track is not only important for navigation and the safety of the general public, it is also necessary for the economic viability of the network. Without that confidence business and leisure partners would not invest, customers would not visit and urban and rural regeneration would not take place.

The security of the network is only of benefit if it is well presented and serviced. We therefore plan to continue to improve the quality of service and facilities so that the qualities of our waterways meet rising customer and user requirements.

#### **3.5.2.1 Safety backlog and statutory arrears**

We have committed to fully eliminate the safety backlog by December 2004 and statutory arrears by December 2012.

Subject to continued funding support from the government we remain on target to achieve both these commitments (Appendix 3).

#### **3.5.2.2 Water management**

The supply of water is important for boaters, water sales customers and the environment. It is core to our business and therefore important that we manage this resource and minimise wastage. Work will continue in 2003/04 on a new water resource optimisation model to help achieve this objective.

#### **3.5.2.3 Corporate Campaigns**

During 2003-04 we intend to introduce the concept of 'corporate campaigns'. These will be high priority initiatives, which everyone throughout the organisation will be able to contribute in some way. They may only involve small actions but could potentially have significant impacts. The first two of these will be to reduce dog fouling on towpaths and reducing energy consumption. The first of these relates to the biggest single complaint we receive from visitors to the canals and is therefore aimed at improving the quality of the visitor

experience and the second an important contribution to sustainability. Where possible we will adopt innovative solutions in addressing these issues.

#### 3.5.2.4 Education

Education is an important part of our wider objectives. During 2002/03 we launched WOW with our partners, IWA and TWT which will now become the main delivery vehicle for waterway education initiatives. We will build on this successful launch by integrating the WOW brand into other BW events ensuring organisers have appropriate materials and knowledge.

A key channel of communication with WOW users is through the Internet and we will continue to promote this and keep it up to date.

#### 3.5.2.5 Freight

We have set ourselves the target of doubling the freight carried on our water by 2010 and intend to achieve this principally by taking forward the Freight Study Group's (FSG) proposals endorsed by the government.

We created a new Head of Freight post and have already introduced a new tolls pricing structure designed to attract more freight onto the water. In the future we will focus on developing niche markets for minerals and waste (particularly for recycling).

##### **Core waterway priorities**

- Complete safety backlog programme.
- Maintain principle inspection programme to ensure correct prioritisation of statutory arrears programme.
- Continue the programme of works on SCADA.
- Corporate campaigns for dog waste and energy consumption.
- Integration of WOW into existing waterway events.
- Promote the WOW website.
- Introduce licensing regime standards for commercial craft and crew competencies.
- Adopt new freight strategy inclusive of waste management and development of niche markets.

#### 3.5.3 Ventures

Waterscape will be our major venture to be launched during 2003/04. This will provide a new method of communication with customers and extend our customer base substantially. We anticipate waterscape to generate profits from 2005/06 with full payback by 2007/08.

We will manage the progress of other ventures to ensure original business plans are achieved.

##### **Ventures priorities**

- Successfully launch waterscape and build customer base.
- Work with Isis to develop properties under option.

- Develop watergrid sales leads.

## **3.6 People and business efficiency**

### **3.6.1 People**

People are one of our most important resources and we will continue to invest in and develop our people. BW has already been recognised as one of the best companies to work for but in order to maintain and improve that status we need to continue to improve the way we look after our people.

Our key priorities are:

#### **People priorities**

- Improve the quality of objective setting throughout the business ensuring alignment to the strategic business plan objectives.
- Improved process for the personal development and appraisal of our people.
- Attract and retain the people needed to develop the business.
- Continue to reward people based upon their contribution and manage employee organisations.
- Continue the development of customer / visitor focused terms and conditions and in particular the introduction of flexible working arrangements.
- Continue to develop the occupational health initiative started in 2002/03 and through this achieve further reductions in sickness absence.
- Undertake employee survey late 2003.

### **3.6.2 People - Equal opportunities**

BW has in place an Equal Opportunities policy which aims to ensure that every possible step is taken to ensure that individuals are treated equally and justly and that decisions about recruitment, selection, promotion and training are based solely on objective, job related criteria. All employees are encouraged to progress according to their skills, abilities and potential.

Our "Approach to Diversity" policy statement supplements our Equal Opportunities Policy and complies with our responsibilities under the recently amended Race Relations Act. We encourage our managers to recognise the importance of "Work/Life balance" issues with 75% of our people agreeing with the statement "my manager recognises the need for a proper balance between my work and the rest of my life" in our recent Employee Survey.

We are actively monitoring progress in broadening the base of our employment balance given that for many years employment levels in BW were extremely static with very low turnover and employees with long service. Whilst we do not set targets or quotas as this could lead to discriminatory behaviour we do monitor the diversity of our people to help spot and combat any potential discrimination.

In 1997 0.5% of our employees were from ethnic minorities and around 20% were female. In 2002/03 ethnic minority employee levels have increased to 1.1% of our workforce and female employees represent 24.4% with an increasing proportion of women moving into management positions.

We are committed to the equal treatment of disabled people where our policy is to always fully consider applications for employment from disabled persons taking full account of the aptitudes of those concerned. In the event of employees becoming disabled every effort is made to ensure that their employment continues and training is arranged. We are committed to ensure that the training, career development and promotion of disabled employees should, as far as possible, be identical to that of other employees. A key element of our Occupational Health procedures is to encourage and support rehabilitation and improving the health of our people.

BW seeks to engage with all communities and we are active around the country working on local initiatives to promote BW in the community. Our publication "Waterways for People" illustrates our commitments in this area. As we expand our activities and continue to grow our business we will be able to continue to improve the balance of our workforce to seek to reflect the diversity of society. Raising our people's cultural and diversity awareness is a key ongoing action.

### 3.6.3 Business Efficiency

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

Office overheads have been revised to take account of savings that will be achieved from the Clearwater Project. Further savings may also be realised when the detailed work to identify efficiencies and savings is complete. Whilst the benefits will start to be realised during 2003/04, the majority of the savings will be achieved from 2004/05.

	01/02	02/03	02/03	03/04	04/05	05/06
	Actual	Budget	Forecast	Budget	Plan	Plan
HQ Overheads as % of total income	15.6	15.0	15.7	14.7	13.7	12.5

**Note:** (1) these are provisional estimates which will be revised to take account of all clearwater savings when fully identified.

#### Business efficiency priorities

- Identify and deliver savings to be realised from the Clearwater project.
- Implement review of organisation structure.
- Introduce video conferencing to the top 21 BW Offices.
- Strategic review of desktop PC and server provision.

- Faster month end financial management reporting.

### 3.6.4 Measuring efficiency

In addition to the significant savings in administration from the Clearwater 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.

#### Measuring efficiency priorities

- Utilise the new SAP system to improve the reporting and development of performance measures
- Put in place performance indicators to monitor the achievement of Waterways for Tomorrow and our wider objectives including corporate social responsibility (CSR).

## 3.7 Risks and Opportunities

### 3.7.1 Government grant

At the time of writing this plan no formal confirmation of DEFRA grant beyond March 2004 has been received. To be consistent with previous plans and in order that the target date of December 2012 for the completion of the statutory arrears is still achievable we have assumed grant will increase with inflation (2% per annum).

Scottish Executive grant has been confirmed at £8.4m in 2003/04 and £8.9m in the two subsequent years. The minimum level of grant required in Scotland is substantially more than the grant confirmed, and while the Scottish Executive have indicated that they accept our case no firm commitments have been made. Nevertheless included within the plan is £2m per annum of additional grant from the Scottish Executive which we believe is the most likely outcome.

The ongoing doubt over these major income stream is the key risk in delivery of this three-year plan.

### 3.7.2 Telecoms

The difficulties and over capacity in the telecoms sector are ongoing. Easynet appear to be in a stronger position than many other operators. Provided Easynet remain financially sound our annual wayleave income of £6.5m from this source is expected to be secure.

### 3.7.3 Utility income

We fully intend to settle our long running negotiations with the Electricity and Gas companies during 2003/04. When negotiations are settled we expect to receive backdated

income of £3.4m from electricity companies and £0.25m from gas companies. However, there is a risk that delays in negotiations will push this income into future years.

### **3.7.4 Wood Wharf £1m entry premium**

London Region estimate that we will be able to negotiate an entry premium from a joint venture partner of £1m to be receivable in 2004/05, however this will depend upon the timing of a JV being established and the amount of competition amongst potential partners.

### **3.7.5 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.

### **3.7.6 Opportunities**

#### **3.7.6.1 Albert Dock**

The possibility of BW taking over Albert Dock in Liverpool is looking increasingly likely provided terms and conditions can be agreed and DEFRA approval is obtained. This has not yet been incorporated into the plan.

The financial impact is likely to be a receipt of a dowry of around £30m. The asset would come with maintenance obligations that would be the first call on the dowry funds. In accordance with the treatment of the Tees Barrage previously, the proceeds will be ring fenced and invested in commercial capital assets. This will then generate income sufficient to meet the obligations.

#### **3.7.6.2 Clearwater**

The plan includes savings from Clearwater of £0.25m in 2003/04 and £1.25m per annum from 2004/05. The exact details of these savings are currently being identified and will be finalised by the end of the summer 2003. There is potential for further savings and benefits to be realised in following years.

## 4 BUSINESS AREAS

This section presents the financial plan by business area and summarises key priorities. This presentation format was introduced from 2002/03. Prior year comparatives on this basis are not readily available and earlier periods are therefore not shown. All cost information should be treated as indicative as our current accounting systems do not easily support this type of analysis. This will be resolved from April 2003 with the introduction of SAP.

### 4.1 Property Investments

£m	Budget	F'cast	Budget	Plan	Plan
	2002/03	2002/03	2003/04	2004/05	2005/06
Rental income	22.6	23.2	22.9	25.6	25.3
Self development income				0.9	1.1
Cost of sales(Self development)				0.8	0.8
Other controllable costs	4.0	3.7	3.9	4.0	4.2
Cost allocations	0.5	0.5	0.5	0.6	0.6
<b>Contribution before depreciation</b>	<b>18.1</b>	<b>19.0</b>	<b>18.5</b>	<b>21.1</b>	<b>20.8</b>
Depreciation	0.2	0.2	0.2	0.2	0.2
<b>Contribution after depreciation</b>	<b>17.9</b>	<b>18.8</b>	<b>18.3</b>	<b>20.9</b>	<b>20.6</b>
Cost of capital charge	18.3	18.2	18.2	18.4	19.0
Profit / (loss) on disposal of assets	3.2	4.6	2.5	2.5	2.5
Unrealised gains / (loss)	12.0	21.8	17.1	17.9	18.8
<b>Economic value created / (consumed)</b>	<b>14.8</b>	<b>27.0</b>	<b>19.7</b>	<b>22.9</b>	<b>22.9</b>

Performance Indicators	Budget	F'cast	Budget	Plan	Plan
	2002/03	2002/03	2003/04	2004/05	2005/06
Simple return from investment property	7.1%	7.3%	7.7%	7.9%	7.9%
Investment property net return	6.3%	6.5%	6.8%	6.8%	6.9%
Leisure property net return	12.9%	13.3%	13.4%	13.5%	13.5%

Note: Investment property includes all property held for income generating purposes and development property held primarily for capital growth. Each of the above performance indicators are based on estimated capital values. Movements in the property market which have not been anticipated will impact on the above indicators. Property capital values have outperformed our expectations during 02/03 as shown by the unrealised gain of £21.8m, increases to the same extent are not forecast to continue over the plan. We have assumed 5% capital growth per annum.

Income is planned to increase in line with the capital investment plan and growth in rents achieved through rent reviews. The above income is after the loss of some income currently received from properties that will be transferred to Isis. £4.8m of property is planned on being transferred to Isis in 2003/04, £1.7m in 2004/05 and £6.4m in 2005/06.

The overall capital base of the property portfolio is expected to remain at roughly the same level in 2003/04 despite transfers out to Isis as these will be offset by capital growth in the remainder of the portfolio.

The income from self development and the associated cost of sales for these properties has been separated out to avoid distortion of the underlying rental incomes.

During 2003/04 we will formalise our investment strategy with greater emphasis being placed on economic value created.

#### Key property priorities

- Continue the disposal of low value and poorly performing property assets.
- Introduce reporting mechanisms for a 'virtual property company' including ISIS.
- Effective management of the interface with ISIS.

## 4.2 Leisure

£m	Budget 2002/03	F'cast 2002/03	Budget 2003/04	Plan 2004/05	Plan 2005/06
Income	19.2	18.6	23.4	26.2	28.6
Controllable costs	4.9	7.0	8.6	9.1	9.8
Cost allocations	1.4	1.4	1.9	2.0	2.1
<b>Contribution before depreciation</b>	<b>12.9</b>	<b>10.2</b>	<b>12.9</b>	<b>15.1</b>	<b>16.7</b>
Depreciation	0.4	0.3	0.5	0.7	0.8
<b>Contribution after depreciation</b>	<b>12.5</b>	<b>9.9</b>	<b>12.4</b>	<b>14.4</b>	<b>15.9</b>
Cost of capital charge	0.9	0.9	1.3	1.6	1.6
<b>Economic value created / (consumed)</b>	<b>11.6</b>	<b>9.0</b>	<b>11.1</b>	<b>12.8</b>	<b>14.3</b>

Performance Indicators	Budget 2002/03	F'cast 2002/03	Budget 2003/04	Plan 2004/05	Plan 2005/06
Craft licence evasion rate	3.0%	3.0%	2.9%	2.8%	2.6%
Number of boats licenced	26,702	26,857	27,471	27,837	28,120
Number of BW permanent moorings occupied	5,977	5,822	6,184	6,378	6,492
Occupancy rate of online moorings (metres)	88%	91%	84%	86%	88%
Occupancy rate of online moorings (berths)	91%	88%	87%	88%	90%

Note: The number of BW permanent moorings occupied is forecast below budget due to delayed opening of new marinas (e.g. Apsley in Southern region).

Increased income is planned from increases in boat numbers and moorings following planned capital investment of £10m in new moorings and marinas. We expect boat numbers to continue to increase at between 1% and 2% per annum. Improved performance



and positive economic value created by the Falkirk Visitor centre by the end of the plan explains the positive trend in economic value created.

New moorings planned for 2003/04 will initially not be fully occupied which explains the lower occupancy percentages budgeted. Over the plan the occupancy rates of these moorings will improve.

£m	Budget 2002/03	F'cast 2002/03	Budget 2003/04	Plan 2004/05	Plan 2005/06
Income	6.6	6.5	8.6	10.1	10.8
Cost of Sales	0.8	1.0	1.2	1.2	1.3
<b>Gross Profit</b>	<b>5.8</b>	<b>5.5</b>	<b>7.4</b>	<b>8.9</b>	<b>9.5</b>
Controllable costs	1.8	2.3	2.7	2.7	2.6
Cost allocations	0.6	0.6	0.6	0.7	0.8
<b>Contribution before depreciation</b>	<b>3.4</b>	<b>2.6</b>	<b>4.1</b>	<b>5.5</b>	<b>6.1</b>
Depreciation	0.1	0.2	0.3	0.4	0.5
<b>Contribution after depreciation</b>	<b>3.3</b>	<b>2.4</b>	<b>3.8</b>	<b>5.1</b>	<b>5.6</b>
Cost of capital charge	0.6	0.6	0.9	1.2	1.2
<b>Economic value created / (consumed)</b>	<b>2.7</b>	<b>1.8</b>	<b>2.9</b>	<b>3.9</b>	<b>4.4</b>

Performance Indicators	Budget 2002/03	F'cast 2002/03	Budget 2003/04	Plan 2004/05	Plan 2005/06
Number of Boats in Marinas	1,517	1,570	1,932	2,116	2,230
% Marina Occupancy (berths)	87%	87%	86%	89%	91%
% Marina Occupancy (metres)	83%	85%	78%	81%	83%
Income per metre occupied	£69	£63	£65	£67	£69
Average Chandlery Basket	£10.46	£12.82	£13.20	£13.60	£14.00
Marinas Turnover Per Employee (£000's)	80	81	76	79	83
Marinas Return on Capital Employed	5.9%	2.6%	6.0%	7.0%	8.0%
Number of Marina Boat Sales	17	17	28	35	44
Marinas Brokerage Commission	7.3%	7.2%	7.2%	7.2%	7.2%

#### 4.2.1 Leisure – more detail on Moorings and Marinas

Marinas turnover per employee and occupancy rates are expected to fall while new moorings and marinas are acquired. These indicators will improve over the plan as the new marinas become fully established.

Moorings and marinas are an extremely important source of contribution, however a number of issues need to be addressed to improve contribution and provide better customer facilities and service.

We shall address:

- Inadequate visitor moorings
- Consistency of the moorings strategy across regions and waterways
- Consistency of approach to marina management.

#### Key moorings and marina priorities

- Ensure waterways are provided with appropriate expert advice and solutions to address the above issues.
- Improve the performance of currently under performing marinas, for example Priory.
- Manage performance and economic value created to ensure planned returns are being at least achieved and preferably exceeded.

## 4.2.2 Leisure – more detail on Attractions

£m	Budget 2002/03	F'cast 2002/03	Budget 2003/04	Plan 2004/05	Plan 2005/06
Income	2.1	1.3	2.4	2.8	3.1
Cost of Sales	0.4	0.4	0.6	0.6	0.7
<b>Gross Profit</b>	<b>1.7</b>	<b>0.9</b>	<b>1.8</b>	<b>2.2</b>	<b>2.4</b>
Controllable costs	1.5	2.6	1.0	1.0	1.1
Cost allocations	0.3	0.3	0.8	0.8	0.9
<b>Contribution before depreciation</b>	<b>(0.1)</b>	<b>(2.0)</b>	<b>0.0</b>	<b>0.4</b>	<b>0.4</b>
Depreciation	0.3	0.1	0.2	0.3	0.3
<b>Contribution after depreciation</b>	<b>(0.4)</b>	<b>(2.1)</b>	<b>(0.2)</b>	<b>0.1</b>	<b>0.1</b>
Cost of capital charge	0.3	0.3	0.3	0.3	0.3
<b>Economic value created / (consumed)</b>	<b>(0.7)</b>	<b>(2.4)</b>	<b>(0.5)</b>	<b>(0.2)</b>	<b>(0.2)</b>

Note: Higher controllable costs in 2002/03 are due to write downs at Anderton and Falkirk.

Performance Indicators	Budget 2002/03	F'cast 2002/03	Budget 2003/04	Plan 2004/05	Plan 2005/06
Number of Visitors (000's)	400	517	475	480	485
Number of Trips Sold (000's)	200	118	181	186	191
% Conversion Rate	50%	23%	38%	39%	39%
Average Spend per Visitor	£5.24	£2.54	£5.10	£5.82	£6.43
Retail Average Basket	£4.57	£2.21	£2.13	£2.25	£2.36
Retail Turnover per Employee (£000's)	53	33	33	33	35
Catering Average Tray	£7.55	£4.71	£3.87	£3.90	£4.64
Catering Turnover per Employee (£000's)	35	29	30	32	33
Attraction Return on Capital Employed	-8.3%	-3.0%	-4.0%	2.0%	2.0%
Attraction Turnover per Employee (£000's)	45	31	33	38	42

This includes the attractions at Falkirk, Anderton and Standedge. We have no immediate plans to build and open similar visitor destinations, although we will be developing 20 priority

sites (see section 4.2.3). We will work on ensuring that the above three sites, and in particular the largest of these Falkirk produces positive contributions.

The first years results at Falkirk were poor. While visitor numbers were at or above those expected. Vandalism, the delay in the delivery of amphibious boats, layout and other operational issues has meant revenues have been well below those expected. These issues are now being addressed and a new plan for the site has been prepared.

**Attractions priorities**

- Achieve a positive contribution from the Falkirk Visitor centre before depreciation of £20k in 2003/04.
- Achieve revised business plan at Falkirk – in particular achieving the planned conversion rate.
- Maintained visitor numbers at Falkirk, Anderton and Standedge.

### 4.2.3 Development of new leisure businesses

A key part of achieving our ambitions as set out in our 10-year strategic business plan will be the promotion and facilitation of the waterways as a leisure destination, particularly for day visitors.

Our strategy for achieving growth in the number of visitors to the waterways is explained within our day visitor strategy (BWB 3056) which was presented to the Board in November 2002.

The main focus of our plans over the next three years will be the development of the *String of Pearls* concept. We have identified 20 priority sites (appendix 4) where we will improve interpretation and other visitor facilities. Some of these sites will have sufficient visitors to support retail, catering or other businesses. Our plans in this area are not yet sufficiently advanced to identify how many or at which sites these new businesses will be developed. However, we have included within the plan speculative income of £1m in 2003/04, £2m in 2004/05 and £3m in 2005/06, which will generate cumulative additional economic value of £1m per annum by the end of 2005/06.

**Day visitor priorities**

- Implement the day visitor strategy
- Identify sites within the 20 priority sites with greatest opportunities for new income generation.

### 4.2.4 Customer service

The craft licensing and customer service departments were merged in 2002 to providing a one stop shop for the handling of customer enquiries. Further improvements will be realised in 2003/04 with the introduction of SAP and improved customer database.

**Customer service priorities**

- Introduce a national customer service platform with national standards for handling customer enquiries.
- Establish BW call centre to handle national enquiries.
- Develop a Customer Relationship Management system (CRM) for commercial customers to deliver greater value and service and increase revenue earning opportunities.

## 4.3 Regeneration

£m	Budget 2002/03	F'cast 2002/03	Budget 2003/04	Plan 2004/05	Plan 2005/06
Income	29.7	28.3	17.5	33.9	45.8
Controllable costs	34.9	35.2	20.2	36.2	48.0
Cost allocations	0.9	0.9	0.7	1.8	2.1
<b>Contribution before depreciation</b>	<b>-6.1</b>	<b>-7.8</b>	<b>-3.4</b>	<b>-4.1</b>	<b>-4.3</b>
Depreciation	0.0	0.0	0.0	0.0	0.0
<b>Contribution after depreciation</b>	<b>-6.1</b>	<b>-7.8</b>	<b>-3.4</b>	<b>-4.1</b>	<b>-4.3</b>
<b>Economic value created / (consumed)</b>	<b>-6.1</b>	<b>-7.8</b>	<b>-3.4</b>	<b>-4.1</b>	<b>-4.3</b>

We have now come to the end of the first tranche of restoration schemes. The current tranche 2 schemes are shown in the table below and we anticipate physical work starting on these schemes from 2004/05 onwards, as indicated by the growth in income from that year. Major tranche 2 projects will form the main focus for this plan period.

We will look closely at whether we should continue with some of the smaller projects, which often require a greater element of BW match funding to make happen. Where these also meet our objectives in relation to customer service, infrastructure and wider social, environmental and heritage benefits we will continue these schemes. However, where they do not some of these schemes will not be progressed. Inevitably this will mean less income from this source but the BW match funding freed up will become available for other priorities.

Tranche Two	BW Owned	£m	Target start year
Lancaster canal - northern reaches	Part BW	59	2004
Cotswold canals	✗	70	2004
Bedford link	✗	100	2005
Droitwich barge & junction canals	✗	7	2003
Foxton inclined plane	✓	8	2003
Montgomery canal (phase I)	✓	10	2003
Bow back rivers	✓	20	2003
Leeds and Liverpool canal extension to Albert dock	✗	15	2003
Manchester, Bolton and Bury canal	✓	36	2004

Note: above costs are estimated total project costs, which will extend beyond the time scale of this plan.

#### Regeneration priorities

- Put in place measures to improve our understanding of the number of visitors to the network to help us demonstrate the benefits of Tranche 1 projects to existing and future funders.
- Publish our vision for the regeneration of waterways to help support the momentum for the funding of tranche 2 projects.
- Closely monitor other smaller projects to ensure correctly focused on BW objectives.

## 4.4 Core Waterway

£m	Budget 2002/03	F'cast 2002/03	Budget 2003/04	Plan 2004/05	Plan 2005/06
Income	25.9	33.4	36.6	30.9	31.2
Controllable costs	114.9	114.7	115.1	92.3	95.2
Cost allocations	13.5	13.5	15.4	15.7	16.4
<b>Contribution before depreciation</b>	<b>-102.5</b>	<b>-94.8</b>	<b>-93.9</b>	<b>-77.1</b>	<b>-80.4</b>
Depreciation	1.9	2.9	2.5	2.3	2.0
<b>Contribution after depreciation</b>	<b>-104.4</b>	<b>-97.7</b>	<b>-96.4</b>	<b>-79.4</b>	<b>-82.4</b>
Cost of capital charge	1.1	1.1	1.5	1.6	1.6
Profit / (loss) on disposal of assets	0.0	-0.1	0.0	0.0	0.0
<b>Economic value created / (consumed)</b>	<b>-105.5</b>	<b>-98.9</b>	<b>-97.9</b>	<b>-81.0</b>	<b>-84.0</b>

Performance Indicators	Budget 2002/03	F'cast 2002/03	Budget 2003/04	Plan 2004/05	Plan 2005/06
Priority projects completed (£m)	53.5	55.8	48.8	39.0	39.0
Spend on safety backlog (£m)	21.9	23.8	16.1	0.0	0.0
Spend on statutory arrears (£m)	17.4	15.6	23.6	21.7	21.7

£6m of the core waterway increased income in 2002/03 is due to the finalisation of an agreement with Severn Trent Water for backdated payments relating to surface water discharges into our waterways.

The largest element of income is from wayleaves and premiums. This income includes £2.5m from Severn Trent Water in respect of payments for surface water discharges and backdated income from electricity companies of £8m following the completion of ongoing negotiations. In addition we also anticipate finalising negotiations for gas wayleaves.

Controllable cost is expected to fall by £22.8m in 2004/05 due to reduced government grant of £15m and no income carry over (Severn Trent and Ultamast).

#### 4.4.1 Safety

The safety of both users and our people is our first priority and concern. Waterways by nature are potentially dangerous places. 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.

##### **Safety priorities**

- Reduce reportable accidents in line with corporate safety plan and comparable industry benchmarks.
- Improve accident-reporting effectiveness.

#### 4.4.2 Safety Backlog and Statutory Arrears

The table in 3.2.1 shows the outstanding balance of safety backlog and statutory arrears at the end of each of year. Our published target date for completion of the safety backlog is December 2004 however due to good progress having been made we now believe all safety backlog works could be completed by the end of March 2004. It should be noted however that this improved internal target has not been shared with the government as this provides us with some leeway should unplanned events cause our works programme to be delayed. The DEFRA plan therefore shows December 2004 and December 2012 as the targets for completing the safety backlog and statutory arrears respectively. (see appendix 8).

##### **Safety backlog and statutory arrears priorities**

- Complete safety backlog works.
- Continue statutory arrears works programme consistent with the 10 year strategy plan.
- Complete programmes of principle and intermediate inspections in accordance with agreed protocols.

#### 4.4.3 Water Supply, Management and Flood control

As well as our waterways providing leisure facilities for boaters they also provide a valuable role in the management of the country's water resources and BW plays an important role in managing those resources in particular in relation to flood defence.

The management of water is just as important from a navigational perspective ensuring that there is sufficient water to support navigation in particular during the summer months when there is greater usage of the network and less water available.

##### **Water resources priorities**

- Support Watergrid Ltd ensuring the BW meets agreed service levels.
- Progress BWs case for specific grant funding for flood defence works.

#### 4.4.4 Waterway standards

The waterway standards are the key measurement system for the level of customer service provided. The navigation standard relates to navigation facilities, the channel standard the depth of the channel in relation to agreed channel dimensions, the environs standard the cleanliness and amenity of the waterway corridor and the towpath standard the type of towpath surface.

A minimum standard has been set for each kilometre of waterway and the following table shows compliance with that standard. Feed back from customers has indicated that these minimum standards are unlikely to be sufficient to meet growing customer expectations and current minimum standards may need to be revised.

		01/02	02/03	02/03	03/04	04/05	05/06
		Actual	Bud	F'cast	Bud	Plan	Plan
Percentage of waterway at or better than minimum standard	Nav	96%	98%	98%	98%	99%	99%
	Chan	82%	86%	90%	92%	95%	95%
	Env	95%	95%	95%	95%	95%	95%
	Tpath	97%	97%	98%	98%	99%	99%

##### Waterway standards priorities

- Incorporate outputs from the costing exercise undertaken during 2002 to identify the cost of improved standards into our financial planning process.
- Review the current minimum standards (used to measure progress against in the above table) and revise in light of rising customer expectations and results from customer surveys.

#### 4.4.5 Freight

Section 3.5.2.5 summarises our plans for freight and our detailed freight strategy is attached in appendix 6. The following specific priorities are also relevant:

##### Key freight priorities

- Implement BW freight strategy milestones.
- Working through AINA arrange for full adoption of the Port of London Authority/British Waterways freight vessels standards scheme.
- Set up competency assessment process for freight carrier skippers.
- Introduce owner funded surveys to ensure freight craft meet safety standards.
- Continue to develop relationships with freight promotion organisations.

£m	Budget 2002/03	F'cast 2002/03	Budget 2003/04	Plan 2004/05	Plan 2005/06
Income (JV Dividend & Waterscape Sales)	1.5	6.2	1.0	5.2	5.0
Controllable costs	3.0	2.3	3.5	2.9	2.4
Cost allocations	0.1	0.1	0.1	0.1	0.1
<b>Contribution before depreciation</b>	<b>-1.6</b>	<b>3.8</b>	<b>-2.6</b>	<b>2.2</b>	<b>2.5</b>
Depreciation	0.0	0.0	0.0	0.0	0.0
<b>Contribution after depreciation</b>	<b>-1.6</b>	<b>3.8</b>	<b>-2.6</b>	<b>2.2</b>	<b>2.5</b>
Cost of capital charge	0.3	0.5	0.4	0.7	0.5
<b>Economic value created / (consumed)</b>	<b>-1.9</b>	<b>3.3</b>	<b>-3.0</b>	<b>1.5</b>	<b>2.0</b>

## 4.5 Ventures

Economic value consumed is planned to increase £6.3m in 2003/04. This is primarily due to £4m income from Ultramast included in 2002/03 which will not be repeated in 2003/04 and the launch of Waterscape, which will make a loss of £2.4m in its first year before a cost of capital charge. This new business is planned to generate economic value of £0.7m by 2005/06. (see section 4.5.4)

### 4.5.1 ISIS

ISIS Waterside regeneration was formed in July 2002. Since then progress has been made on the initial 11 sites under option and a further 25 sites are under consideration.

£m	03/04 Budget	04/05 Plan	05/06 Plan
<b>Income</b>			
ISIS dividend receivable		1.9	0.7
<b>Capital</b>			
Property sales into Isis	4.8	1.8	6.4
Equity into ISIS	-3.5	-4.8	-2.3
Equity repaid from ISIS	0.1	4.7	1.7
<b>Net capital cash flow</b>	<b>1.4</b>	<b>1.7</b>	<b>5.8</b>

As we sell properties to ISIS we shall use part of the sale proceeds as our share of equity investment in the partnership. Equity will be repaid to BW when the property is finally disposed of along with our share of profits payable to us as dividends.

The following sites are planned to sold to ISIS during 2003/04:

- Thurrock



- Walsall
- Stourport - Larchlap
- Media Village
- Technovillage / Digbeth
- Vesta Street Ancoats, Manchester

The following high-level profit and loss account shows planned income and costs of ISIS for years ending December 2003 and December 2004:

£m	2003	2004
Revenue	2.5	55.1
Cost of sales	-2.1	-37.2
	0.4	17.9
Overheads and interest	-1.7	-4.9
<b>-Loss/profit (1)</b>	<b>-1.3</b>	<b>13.0</b>

Note (1) this –loss/profit relates to ISIS 50% of which will be consolidated into BW group accounts.

#### Isis priorities

- Achieve planned revenue and profit targets.
- Sell properties to ISIS in line with business plan
- Produce regular updates on JV activities and funding requirements.

## 4.5.2 Water Grid

A joint venture company has now been set up with our partners AWG, Bristol Water and partnerships UK.

2003/04 will be the first year of trading when the main priority will be the development of new sales leads. During the start-up phase of the company BW will invest the following equity to grow the business before third party finance is raised.

£m	03/04 Budget	04/05 Plan	05/06 Plan
Equity Investment	1.0	1.2	2.8

The JV will not distribute any profits to BW within the next three years although we will receive income from the JV for the recharge of staff time.

#### Water Grid priorities

- Develop sales leads and start to build a customer base.
- Invest the above equity in line with the approved business plan.

### 4.5.3 Wood Wharf, Docklands

In last year's plan we referred to the acquisition of the port 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 it should not be incorporated into ISIS but developed separately. We plan on selecting development partner(s) during 2003/04. Following this more detailed development plans will be prepared.

#### Wood Wharf priorities

- Select development partner(s).
- Establish control mechanisms for management of this major development.

### 4.5.4 Waterscape

Waterscape is a new Internet based business, which will provide a modern efficient channel of communications with existing and new customers and bring consumers together with suppliers of waterway-related products and services.

New income will 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. The following table shows a summary profit and loss account for the venture. A five-year period is shown to indicate when it starts to generate profits and the ventures payback period.

£m	02/03	03/04	04/05	05/06	06/07	07/08
Revenue		0.3	1.1	2.1	3.1	4.0
Initial feasibility costs	0.7					
Cost	0.8	-2.8	-2.1	-1.4	-1.6	-1.7
<b>Economic value – consumed/created</b>	<b>-1.5</b>	<b>-2.5</b>	<b>-1.0</b>	<b>0.7</b>	<b>1.5</b>	<b>2.3</b>
<b>Cumulative Economic value – consumed/created</b>	<b>-1.5</b>	<b>-4.0</b>	<b>-5.0</b>	<b>-4.3</b>	<b>-2.8</b>	<b>-0.5</b>

Note: No material capital investment will be made in Waterscape hence EVC will also equate to conventional profit/loss.

#### Waterscape priorities

- Generate and put in place agreements with providers of waterway related products and services and sign up advertisers.
- Construct content of web site.
- Launch and promote the new business.



£m	Budget	F'cast	Budget	Plan	Plan
	2002/03	2002/03	2003/04	2004/05	2005/06
Internal Income	37.4	36.8	34.7	36.6	37.6
Controllable costs	59.4	62.8	58.5	59.0	59.5
<b>Contribution before depreciation</b>	<b>-22.0</b>	<b>-26.0</b>	<b>-23.8</b>	<b>-22.4</b>	<b>-21.9</b>
Depreciation	2.9	2.1	2.5	2.6	2.7
<b>Contribution after depreciation</b>	<b>-24.9</b>	<b>-28.1</b>	<b>-26.3</b>	<b>-25.0</b>	<b>-24.6</b>
Cost of capital charge	3.3	3.3	3.2	3.2	3.2
<b>Economic value created / (consumed)</b>	<b>-28.2</b>	<b>-31.4</b>	<b>-29.5</b>	<b>-28.2</b>	<b>-27.8</b>

Performance Indicators	Budget	F'cast	Budget	Plan	Plan
	2002/03	2002/03	2003/04	2004/05	2005/06
Overheads as % BW expenditure	15%	15.7%	14.7%	13.7%	12.5%
Training days per employee	4	5	5	4	4
Absence days per employee	7.8	8	7	6	6
Employee turnover	<16%	7.5%	5-10%	5-10%	5-10%

## 4.6 Corporate Services

Note: Overhead % numbers are provisional and will be revised when all Clearwater benefits have been fully identified. Higher training days during 2002/03 and 2003/04 is due to Clearwater. Following this training days will reduce.

Corporate service costs include all costs that cannot attributable to a business area and the costs of corporate service departments such as WCR. The costs of service departments are charged to projects via an internal charging system and the internal income above indicates this. The drop in income in 2003/04 is caused by a change made to the composition of costs that are charged.

Our strategic objective as detailed in the strategic business plan is to reduce overheads in both real terms and as a percentage of total expenditure. This is supported by the economic value consumed line above.

## 5 WIDER OBJECTIVES AND CORPORATE SOCIAL RESPONSIBILITY

Our statutory responsibilities extend beyond just those of a navigation authority and the maintenance of the waterway infrastructure. We are expected by Government to deliver wider benefits in the areas of the environment, heritage, social inclusion and economic growth.

Conserving and improving both the natural and built environment are already core responsibilities for BW. Social and economic benefits are an essential outcome of our regeneration and development programmes.

However, we know we are not consistent in our delivery. There are examples of excellent practice across almost all our activities but similarly we are still doing some things with no recognition of our need for wider benefits or our commitment to sustainability. The vast majority of activity is of course somewhere between the two.

It is important that we develop systems and processes to ensure we can meet the growth objectives in the 10-year strategy but in a sustainable way that delivers the wider benefits demanded of us. We need the systems and processes to:

- **measure our outputs** - so that we can:
- **report internally and externally on our achievement** - so we can:
- **manage the process to control the resources to achieve an optimum balance between commercial growth and wider benefits** - so we can:
- **have a truly sustainable business plan.**

This is a complex area and one where there are few examples of organisations that can demonstrate they have robust systems for measurement, reporting and management activities for sustainability.

We are developing our own system and process based on the strategic plan's 3 overlapping circle diagram and our business area reporting methodology. In this way we are using existing terminology and methodology. This is described pictorially as:

BUSINESS AREAS	SUSTAINABLE DEVELOPMENT		
	SOCIAL	ECONOMIC	ENVIRONMENT & HERITAGE
PROPERTY	Affordable housing units created	The income we generate for re-investment in the waterways is a	Reducing number of buildings on the English Heritage 'at risk' register
RESTORATION AND REGENERATION	Miles of newly accessible waterway corridor	proper measure of economic benefit, as all the income we earn is spent on	Miles of historic waterways restored
LEISURE	Visitor numbers and visitor satisfaction levels	the waterways. Our business plans are a good indicator of our	Number of interpretation schemes completed
CORE WATERWAY (Wayleaves & Premiums)	Improved appreciation through changed attitudes	achievements in this area.	Reduced CO2 emissions from employee vehicles by reducing business mileage
VENTURES (ISIS, Watergrid, Waterscape)	Hits on the Waterscape website		% of ISIS projects meeting sustainable development criteria

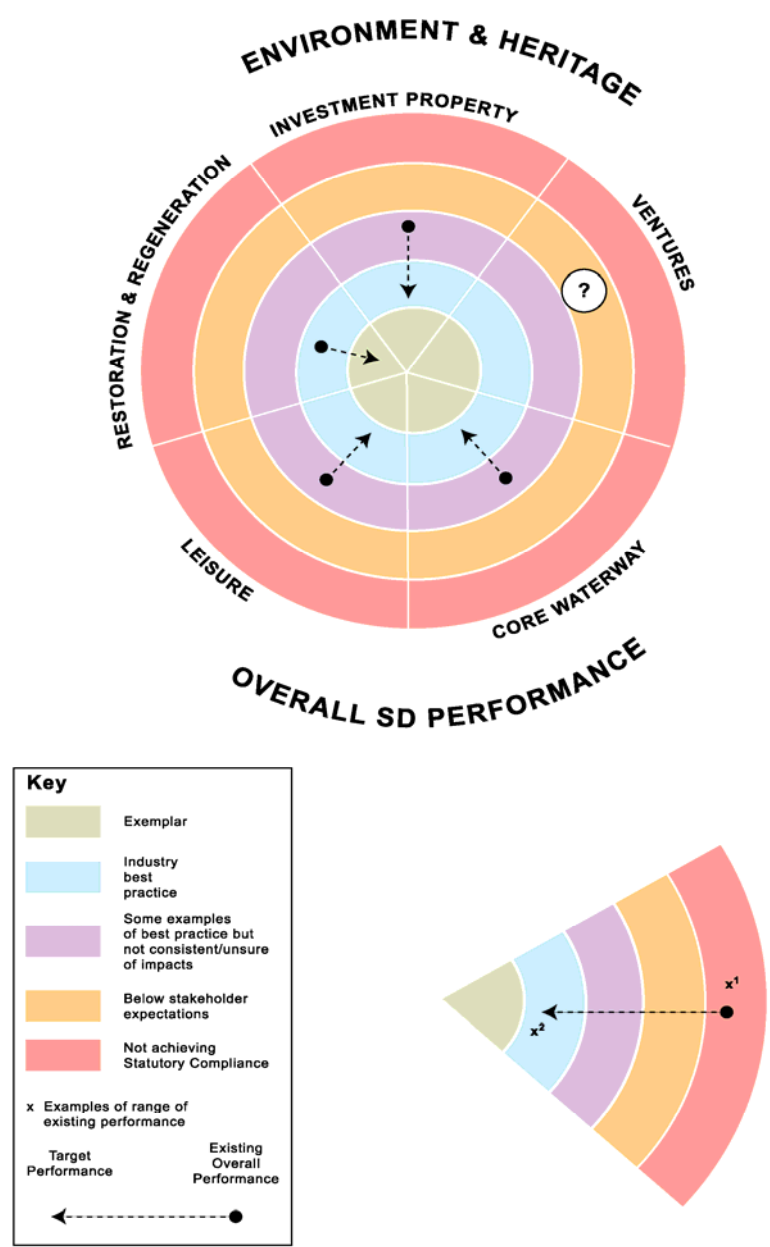
The monitoring and reporting of environment and heritage activities is fairly well developed and there are a number of useful indicators that we use such as Biodiversity Action Plans, Heritage Action Plans or Heritage training days. We define economic benefit as the economic value created by each of our business areas so again monitoring and reporting is already in hand.

Social benefits are more difficult to monitor and therefore more difficult to control. There is a danger that the organisation is seduced into diverting ever-greater resources into socially beneficial activities and projects. We value our ability to deliver local solutions for local communities but we need to set frameworks within which our people can operate. During this plan period we will therefore focus on:

- Education
- Access for All
- Community Relations (including the reduction of vandalism and threatening behaviour and encouraging use by a diverse range of people).

Each waterway will be required to focus their social inclusion activities in these areas. We will agree the extent of the activities planned and monitor their success to help manage the allocation of resources going forward. Any activity that is wholly or partly justified because of its contribution to social benefits must deliver in one of the areas listed above.

We are developing a 'dartboard' system that we can use both internally and externally to report where we think we are and where we should be with regard to the delivery of wider benefits on an indicative scale. An example of the dartboard divided into the 5 business areas is shown below:



## APPENDIX 1 – GOVERNMENT GRANT

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

£m	Actual	Budget	Forecast	Budget	Plan	Plan
	01/02	02/03	02/03	03/04	04/05	05/06
<b>Cash</b>						
DEFRA - Base	56.5	61.6	61.6	61.6	62.8	64.1
DEFRA - Statutory arrears	5.0	10.0	10.0	15.0	0.0	0.0
Scottish Executive -Base	8.6	7.1	13.3	8.4	8.9	8.9
Scottish Executive - anticipated	0.0	0.0	0.0	2.0	2.0	2.0
<b>Cash grant receivable</b>	<b>70.1</b>	<b>78.7</b>	<b>84.9</b>	<b>87.0</b>	<b>73.7</b>	<b>75.0</b>
Opening grant accrual	-2.2	0.0	0.0	0.0	-4.8	-4.8
Closing grant accrual	0.0	4.8	0.0	4.8	4.8	4.8
Deferred capital grant released to P&L	0.8	0.8	1.8	1.3	1.3	1.3
Grant allocated to capital expenditure	-4.1	-4.2	-4.4	-1.6	-1.5	-1.5
	<b>-5.5</b>	<b>1.4</b>	<b>-2.6</b>	<b>4.5</b>	<b>-0.2</b>	<b>-0.2</b>
<b>Grant credited to p&amp;l account</b>	<b>64.6</b>	<b>80.1</b>	<b>82.3</b>	<b>91.5</b>	<b>73.5</b>	<b>74.8</b>

### Sensitivities

The DEFRA baseline grant above includes additional grant of £1.2m in 2004/05 and £2.5m in 2005/06 for inflation. DEFRA have not confirmed that we will receive any additional income but we await the outcome of their baseline review for confirmation of grant funding for these years.

While we have included inflation on DEFRA grant from 2004/05 in the plan we shall also prepare contingency plans during 2003/04 to ensure that even without additional grant the target date for the elimination of statutory arrears is still achieved.

The Scottish Executive base grant above has been confirmed but we anticipate that a further allocation will be announced part way through the year. We shall manage works in Scotland so that financial commitments are not made above the level of grant already confirmed until the additional grant has been agreed. Safety backlog works will also take priority so that these are completed irrespective of whether additional grant is received from the Scottish Executive.



## **Appendix 2 - BW ACTIVITIES**

### **6 BW ACTIVITIES**

#### **6.1 Introduction**

This Corporate Plan has been prepared taking into account the DEFRA Baseline Review exercise. This section of the plan provides a summary of how DEFRA funding to BW is aligned with evaluation criteria that may be applied by the Baseline Review.

Section 6.3 below gives a cross-reference between DEFRA Core Objectives and BW activities as shown in the rest of this plan.

#### **6.2 Evaluation Criteria**

##### **6.2.1 Public Commitments**

A number of public statements have been made relating to BW's activities. Not least in the Government policy paper 'Waterways for Tomorrow'.

If anything, developments in the period since its publication in areas such as sustainability and regeneration have further strengthened the need to be seen to deliver the objectives set out in the paper.

BW is a deliberately open organisation and as such publishes a public plan and holds a public annual meeting each year. The public plan contains specific commitments with measurable targets and is based on the financials in this corporate plan.

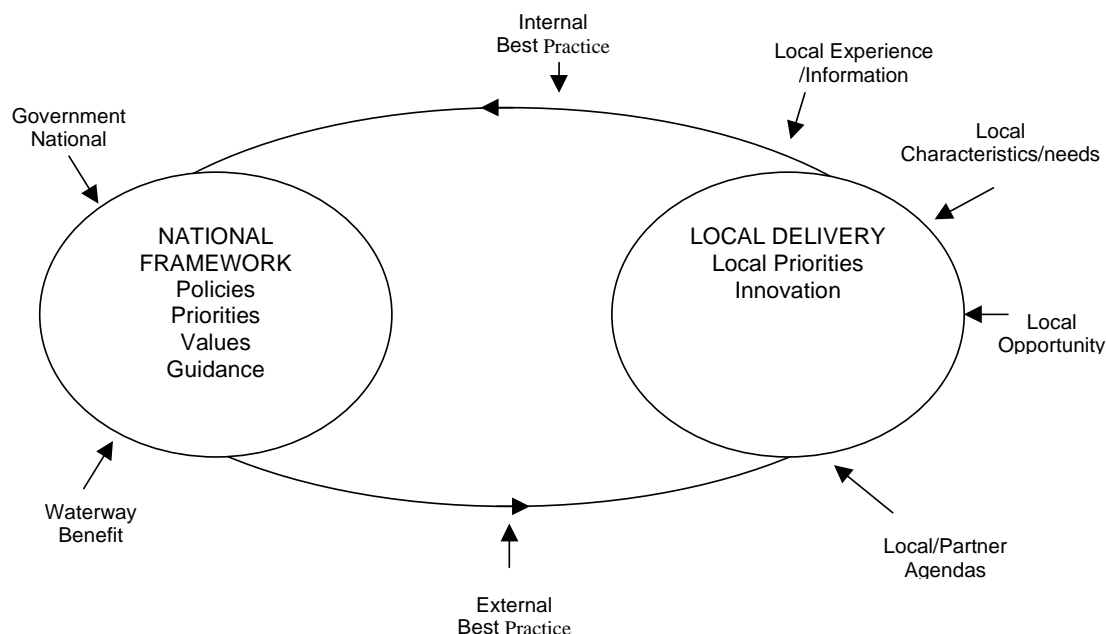
The safety backlog and other statutory arrears maintenance targets currently being worked to have been widely published in these and other media.

##### **6.2.2 Sustainable Development**

BW is committed to the sustainability agenda and our overarching principles and wider objectives (than pure navigation) have been defined and guide all areas of activity. More details are given in section 6 of this plan.

An integrated approach is taken to optimise all the sustainability benefits that the waterways can bring. Guided by Board working groups and external consultation a way of working has been created to ensure sustainable solutions are delivered throughout the organisation (see following diagram).

Performance measures are being progressively introduced that enable measurement of progress against target. The plan gives more detail on the key areas of activity in the field of heritage, environment and social issues.



### 6.2.3 Contribution to the Economy

BW has become established as a major delivery vehicle for regeneration by using waterway restoration as a catalyst for wider economic regeneration. Estimates of total regeneration brought about through waterway development have reached £2bn.

BW has a major contribution to make to the continued regeneration of all types of economic environment including the delivery of housing targets through its property portfolio (directly and via joint ventures). Isis for example in addition to other types of property development will create 8,000 new homes of which nearly 2,500 will be social housing.

A significant proportion of turnover is spent on often labour intensive contract work with construction companies boosting employment in addition to the jobs created on or beside the waterway as part of the regeneration referred to above.

BW has received much favourable press comment on the creation of various high profile joint ventures on a public private partnership basis. This provides a model for others to follow and a source of positive news in a, sometimes difficult, area, but these investments are also predicated on the ongoing strength of the core infrastructure.

### 6.2.4 Public Perception

There has been a transformation in the public perception of waterways in recent years. BW has established the inland waters as leisure destination visited by an estimated 10 million people a year.

A flourishing tourism business operates on the waterways but it is dependent on the provision of a safe and well-maintained infrastructure by BW.

It is now fashionable to buy property adjacent to these waterways and this has created many new communities with strong affinity to the water. These people have a reasonable ongoing expectation that their lives and their investment will not be adversely impacted from any lowering of infrastructure standards.

#### **6.2.5 Management & Mitigation of Risk**

BW has established class-leading standards of asset management. This has enabled detailed work to be undertaken first to quantify historic underfunding of maintenance works, and more recently, to create a programme of works to remove the most serious of these backlogs.

There remains a significant statutory arrears of maintenance on the core assets that is now being addressed with a 10 year plan to eliminate all remaining outstanding work.

The programme has to be carefully managed to ensure that the assets involved do not deteriorate causing significant risk to public safety before repairs can be made.

The existing funding provided to BW is primarily predicated on maintenance of the infrastructure so as to ensure safety and to enable the multitude of other businesses that depend on it to flourish.

#### **6.2.6 Need For Intervention (Market failure)**

It has been established for many years that the maintenance intensive nature of the infrastructure business cannot be delivered on a full market basis and the inland waterway network is of such importance to society and the economy that intervention is required.

This also reflects the fact that the vast majority of those who enjoy the public amenity of the network can never be expected to pay directly for the privilege. BW also delivers a number of wider objectives that would not be provided through the market.

Various income streams have been developed by BW on a commercial basis by exploiting all the assets in its possession, with the objective of minimising the need for government financial support. However given the current structure, capital base and commercial constraints imposed by government it is not possible to generate sufficient income to cover all the infrastructure costs. We do however, believe that the need for intervention and government financial support can be reduced by challenging the current restrictions and exploring alternative innovative funding mechanisms.

### **6.2.7 Performance to date**

BW's excellence performance in recent years has been widely recognised. The business has been able to repeatedly demonstrate successful delivery of major projects and change initiatives. This plan continues this process.

Innovation continues to be applied in all areas of operation and funding. This brings a number of advantages not least, the leveraging of money paid by the department with contributions from BW's directly earned income or funds from NGO's.

### **6.3 BW Contribution to DEFRA Core Objectives**

The following table shows how BWs activities contribute to DEFRA's core objectives.

DEFRA Core Objective	BW Contribution
<b>Objective 1</b>	
To protect and improve the rural, urban, marine and global environment and conserve and enhance bio-diversity, and to lead integration of these with other policies across Government and internationally.	<ul style="list-style-type: none"> <li>BW Biodiversity framework and waterway biodiversity action plans help to manage the environment. The Waterways have over 100 SSSI's and over 1,000 sites of local conservation interest for special waterway habitats.</li> </ul>
<b>Objective 2</b>	
To enhance opportunity and tackle social exclusion through promoting sustainable rural areas with a dynamic and inclusive economy, strong rural communities and fair access to services.	<ul style="list-style-type: none"> <li><b>Regeneration</b> and maintenance of rural canals helps to improve local economies. The development of waterway corridors as visitor attractions means that visitors spend money with waterway related businesses and other adjacent businesses.</li> <li>Direct management and promotion of <b>leisure</b> based businesses (for example <b>moorings</b>, and <b>visitor attractions</b>) many of which provide valuable employment opportunities for rural communities.</li> </ul>
<b>Objective 3</b>	
To promote a sustainable, competitive and safe food supply chain which meets consumers' requirements.	<ul style="list-style-type: none"> <li><b>Water grid</b> has the potential to supply potable quality water to consumers and also helps to improve the general quality of water.</li> </ul>
<b>Objective 4</b>	
To improve enjoyment of an attractive and well-managed countryside for all.	<ul style="list-style-type: none"> <li>Manage over 2,000 miles of waterway ensuring the integrity of the <b>'track' infrastructure</b> and <b>safety</b> of the network is maintained including water quality.</li> <li>Managing and controlling the water supply for boating and minimising damage from the risk of flooding during periods of high rainfall.</li> </ul>
<b>Objective 5</b>	
To promote sustainable, diverse, modern and adaptable farming through domestic and international actions and further ambitious CAP reform.	No direct contribution.
<b>Objective 6</b>	
To promote sustainable management and prudent use of natural resources domestically and internationally.	<ul style="list-style-type: none"> <li>BW manages all its activities in a sustainable way and supports sustainable development through: <ul style="list-style-type: none"> <li>- Procurement</li> <li>- Use of energy and other resources</li> <li>- Development of its people</li> <li>- Promotion of <b>freight</b> transport where appropriate.</li> </ul> </li> </ul>
<b>Objective 7</b>	
To protect the public's interest in relation to environmental impacts and health, including in relation to diseases which can be transmitted through food, water and animals, and to ensure high standards of animal health and welfare.	<ul style="list-style-type: none"> <li>Publication of risks and promotion of the safe use of waterways.</li> <li>Maintenance of waterways to a clean standard in line with our <b>waterways standards</b> which includes the provision of sanitary facilities for boaters. Helping to contribute towards better water quality.</li> </ul>

## Appendix 3 – DEFRA GRANT

### 7 DEFRA GRANT

#### 7.1 SR2002 Funding requirements

As part of the 2002 spending review BW presented the following grant request to DEFRA:

£m	Ref	2003/04	2004/05	2005/06
Baseline (cash grant)		61.6	61.6	61.6
Maintaining baseline grant in real terms (less 1% efficiency saving)	7.1.1		1.2	2.5
Statutory arrears (water grid)		15.0		
<b>Baseline grant</b>		<b>76.6</b>	<b>62.8</b>	<b>64.1</b>
Statutory arrears (end 2010)	7.3.1	2.1	2.1	2.1
Doubling freight project grant	7.4.1	2.5	2.5	2.5
TWT	7.4.2	1.5	1.5	1.5
Capital grant	7.4.3	5.0	5.0	5.0
<b>Grant request SR2002</b>		<b>87.7</b>	<b>73.9</b>	<b>75.2</b>
<b>Grant notified</b>		<b>76.6</b>	<b>TBC</b>	<b>TBC</b>

This grant request was based upon the assumption that the current deficit-funding regime continues over the plan period. Should this assumption change following ongoing discussions regarding alternative funding arrangements and wider commercial freedoms government grant would need to be re-assessed. We would anticipate that additional commercial freedoms would allow us to generate higher levels of earned income thus reducing the need for the same level of DEFRA funding (although outside of this plan period).

##### 7.1.1 Maintaining Baseline Grant in Real Terms

Our published target for the elimination of statutory arrears is December 2012, which was set on the assumption that government grant would remain constant in real terms. This target takes account of actual and planned increases in income, which have enabled the target date to be progressively brought forward from the February 1999 target of 2021. Prior to this there were no funded plans to eliminate the maintenance arrears and without action the balance would have spiralled into infinity. Increased income since then includes:

- Additional earned income from PPPs, which brought the target forward to 2015.
- £30m grant over the years 2001/02 to 2003/04, which brought the target forward to 2013.

- Income from Canary Wharf in 2001/02, which brought the target forward to December 2012.

The three-year profit and loss account shown in section 3 has therefore been prepared based upon the minimum government funding possible to meet publicly quoted targets for the elimination of the statutory maintenance arrears by December 2012. This includes maintaining the baseline grant at 2002/03 levels in real terms. We have used 3% as an estimate of annual inflation over the period from which we have deducted a 1% annual efficiency saving. It is not possible to achieve the 2012 target and the other priorities of the business without grant being maintained in real terms.

#### 7.1.1.1 Sensitivity Analysis

The following chart (Chart 1) shows our current plans for eliminating the statutory arrears and safety backlog. Chart 2 shows the impact on the outstanding statutory arrears and safety backlog if grant is not increased for inflation. A third chart illustrates the impact of a notional 10% cut in grant on the arrears target.

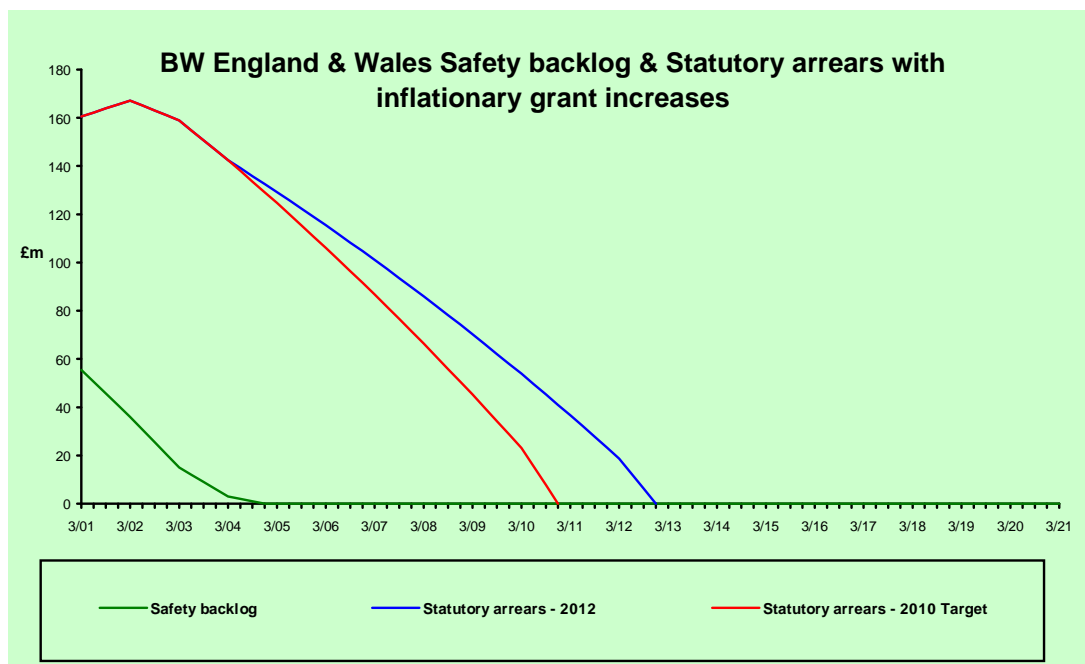


Chart 1

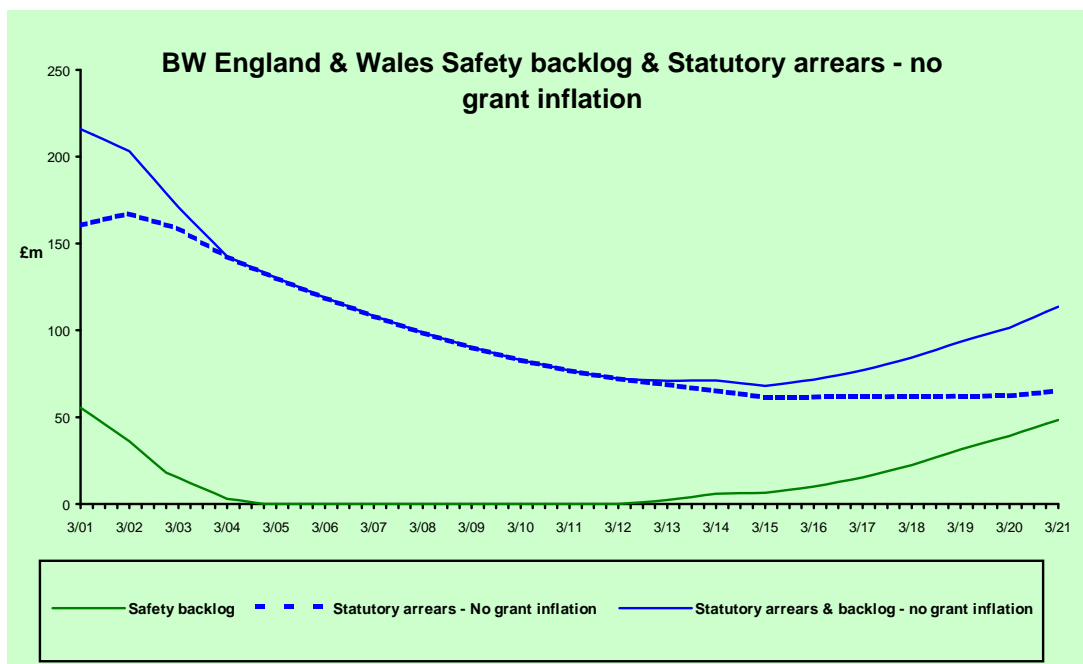


Chart 2

#### 7.1.1.2 Impact of Different Grant Levels

The consequences of grant not being increased for inflation is that each year the amount we are able to spend on eliminating the statutory arrears is reduced. In the short term it is possible (although not ideal) to defer other works such as routine preventative maintenance.

In the longer term this becomes a false economy as these assets themselves fall into an arrears state. In our modelling we have assumed that our routine preventative maintenance programme will stop new arrears arising and the full effect of real term grant reductions falls on the current statutory arrears balance.

The impact is slow to start with but with time the effect of grant not being increased is compounded. This causes statutory arrears works to be delayed and some deteriorate further and start to become unsafe. These unsafe assets then become our priority but because they have been allowed to deteriorate further the cost of repair is increased.

The effect of this is to further reduce the amount of statutory arrears work that can be carried out. Eventually the point is reached where we have insufficient funds to complete all the urgent safety works and at this point a new safety backlog will start to accrue (green line).

As part of SR2002 DEFRA requested that we look at the implications of a 10% grant reduction. The main impact on such a reduction will be on our ability to complete the outstanding statutory arrears and to stop the relevant assets, which are already in poor condition deteriorating further and becoming unsafe generating a new safety backlog.



The following chart shows the impact on the current statutory arrears of a 10% cut in grant. The same assumptions as those described previously are relevant and the safety backlog and statutory arrears curves behave in the same manner except the impact is much sooner.

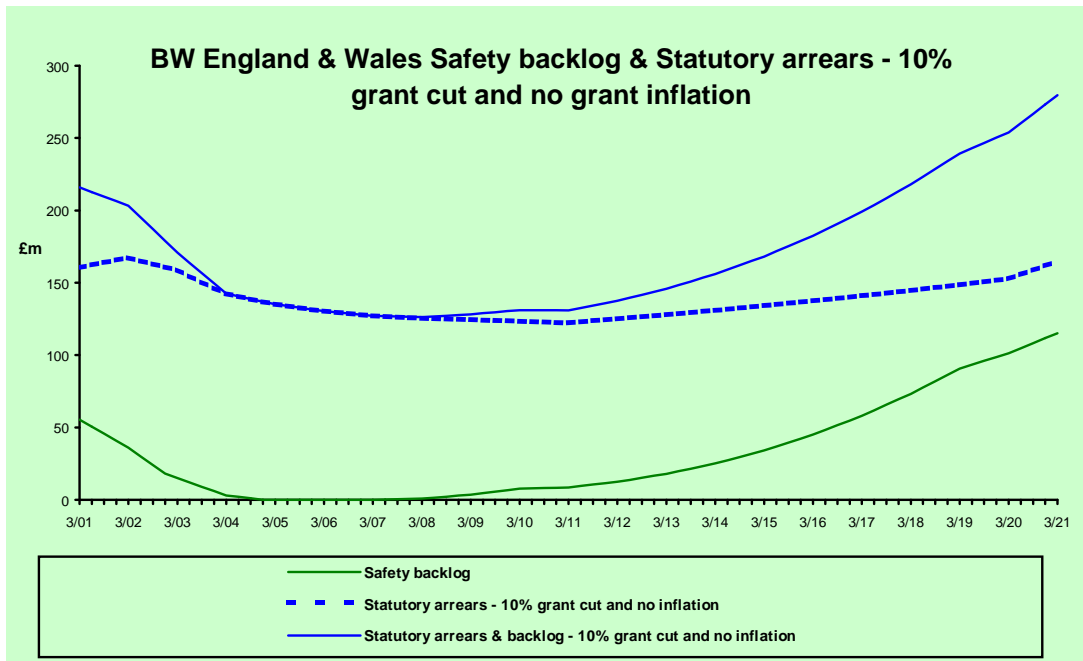


Chart 3

## 7.2 Summary

Given the significant impact of lower grant levels it is important that as a minimum government grant remains at the current level in real terms (net of efficiency gain).

Without this we will not be able to meet published safety backlog and statutory arrears targets as well as the governments objectives for inland waterways as detailed in 'Waterways for Tomorrow', including wider social, environmental and heritage benefits.

Should the wider commercial freedoms, referred to in 4.1 above, be granted this minimum funding level will need to be re-assessed with the intention that such commercial freedoms will remove the need for the same level of DEFRA financial support.

## 7.3 Additional Grant Request

### 7.3.1 Bringing Forward the Elimination of Statutory Arrears

BW also believes that the target date for the elimination of the statutory arrears should be brought forward by at least two years to December 2010. This could be achieved with additional grant of £2.1m per annum from 2004/5.

### 7.3.2 Flood defence

Our waterways and related infrastructure provide an important part of England and Wales's flood defence system in particular in urban areas where they form a conduit for the rapid removal of surplus water in a controlled manner.

We maintain assets to a higher standard than would just be required for navigation in order to provide these facilities. A flexible workforce is also required which is capable of reacting quickly to flood events at any time. The floods during the autumn of 2000, which affected large parts of England and Wales, provide an example of where if it were not for our people's fast reactions additional damage would have been caused.

We currently do not receive any specific grant for this purpose but would welcome the opportunity to discuss this further, as we understand that provided we can demonstrate that flood defence is a primary purpose and there are quantifiable net benefits to the community as a whole, then some of what we do will qualify for specific flood defence grant. As a starting point we believe between £3m and £5m additional grant is required for us to discharge our responsibilities fully in this area.

We will continue to improve our working relationship with the Environment Agency regarding this matter to ensure all options are considered.

## 7.4 Action Taken Since SR2002 Bid

While each of the items in the original SR2002 bid remain a priority, we have been able to identify alternative ways to address these needs within current plans. Details are set out below.

### 7.4.1 Doubling Freight Project

Details on progress against priorities and FSG recommendations are set out in section 2.1.5.5.


The cost of the additional resource required to take forward the FSG recommendations equates to **£250k per annum** which have been absorbed into our plans.

### 7.4.2 TWT

With encouragement from Government we have supported TWT and AINA to help meet the objectives of Waterways For Tomorrow. However, the costs of supporting TWT have never been incorporated into the baseline grant. Funding for TWT remains a priority and we have absorbed these costs into our three-year plan. If grant is not at least increased for inflation, however, it is unlikely that this level of support could continue.

### 7.4.3 Capital grant

The replacement of old operational plant and equipment remains an essential priority over the next three-year period. We have put in place operational lease rental agreements to acquire the fixed assets required without the need for large amounts of up front capital. We will need to incur additional lease rentals however of around **£1.5m per annum**. These costs have been absorbed into the plan.



£000	Actual	Budget	F'cast	Budget	Plan	Plan
INCOME	2001/02	2002/03	2002/03	2003/04	2004/05	2005/06
Property Investments	542	519	555	570	555	541
Leisure	500	2,369	1,496	2,309	2,703	3,028
Regeneration	11,027	1,473	1,114	200	200	200
Core Waterway	754	611	826	648	654	659
Ventures	0	0	0	132	132	132
<b>TOTAL DIRECT INCOME</b>	<b>12,823</b>	<b>4,972</b>	<b>3,991</b>	<b>3,859</b>	<b>4,244</b>	<b>4,560</b>
Government Grant	8,600	7,100	13,300	10,400	10,900	10,900
<b>TOTAL INCOME</b>	<b>21,423</b>	<b>12,072</b>	<b>17,291</b>	<b>14,259</b>	<b>15,144</b>	<b>15,460</b>
<b>EXPENDITURE</b>						
Payroll	3,810	4,444	4,510	4,934	5,080	5,231
Staff Related Costs	771	620	635	642	665	676
Materials	393	582	476	545	551	565
Contract	17,548	4,755	8,716	4,556	4,608	4,666
Operational Costs	789	1,238	892	1,158	1,305	1,317
Rent, Rates & Utilities	359	348	474	499	515	530
Professional Fees	564	650	456	556	483	499
Write down of Fixed Assets			850			
Office Services	132	801	1,087	945	973	1,002
Publicity	320	181	347	388	425	425
Interest	(240)	0	(132)	0	0	0
Other Costs	738	608	2,115	536	539	549
Net internal charges	0	0	0	0	0	0
<b>TOTAL EXPENDITURE</b>	<b>25,184</b>	<b>14,227</b>	<b>20,426</b>	<b>14,759</b>	<b>15,144</b>	<b>15,460</b>
<b>CW Income</b>						
<b>Transfer to reserves</b>						
<b>NET PROFIT / (LOSS)</b>	<b>(3,761)</b>	<b>(2,155)</b>	<b>(3,135)</b>	<b>(500)</b>	<b>0</b>	<b>0</b>

## Appendix 4 – SUMMARY SCOTLAND PLAN

Our vision for British waterways in Scotland is unchanged from that contained in last years Business plan - that the waterways will be managed and will be acknowledged as being managed in a sustainable way to provide maximum benefit and enjoyment to all sections of society. This is consistent with the policy document, “Scotland’s Canals – an asset for the future.”

Our overall aims and objectives remain to:

- Maintain and develop our inland waterways so that they fulfil their economic, social and environmental potential
- Fulfil statutory navigation and safety functions

- Conserve waterways' heritage and environment for the future
- Promote and accommodate conservation and regeneration
- Maintain and enhance leisure, recreation, tourism and education opportunities for the general public
- Facilitate waterway transport and freight.

We will work within the framework of British Waterways' corporate objectives while seeking to meet the aspirations of the Scottish Executive as now laid out in the recently published Scotland's Canals policy document.

Our overarching priority, is to make a success of the reopened Lowland Canals, including the visitor attraction at the Falkirk Wheel. The end result, over a number of years, will be canals, which are integrated into the communities they serve creating a sense of community ownership and value. The long-term future of British Waterways in Scotland is closely linked with the transformation of the Lowland Canals.

Following the re-opening to navigation, many of our partners seem to believe that their work is now complete and have to a certain extent turned their attention away from the Canals. We take the opposite view that their task – the stimulation of a wider corridor of development and activity – is now pressing as we stated in our evidence to the Scottish Affairs Committee. We also consider that the canal infrastructure and facilities require significant further investment and improvement. Our customers and visitors expect increasing standards of service and support. Our neighbours can be uncomfortable with increasing canal side activity where previously there was none. After such a long period of stagnation or isolated activity there is also resistance to the necessary commercial changes.

We have been diverting funding from Backlog and Arrears to improvements on the Lowlands. This is, of course, not sustainable over time and increased funding is required. Our best income earning opportunities are the mini hydroelectric scheme at Banavie and the sale of grey water to BP at Grangemouth. The latter has significant additional benefits as infrastructure improvements could be funded by the overall project.

Our future income generating projects lie mainly in the Lowlands with property development opportunities and potential commercial developments on identified sites along the Canal. The relationship between the security of the canal infrastructure, the development of facilities and the wider regeneration is crucial. With adequate funding it can be a virtuous circle, but can quickly become a vicious circle without funding. Significant preparatory work has gone into the development of the Lowlands business plan.

Waterborne income is growing very slowly although the coming year will see an increase in Hire and day boats on the Lowlands Canals. Licence income has increased on the

Caledonian. The licence review has recently been completed. The net effect of the review and the moving of hire boats from licences to trading agreements should at least be neutral, but it remains to be seen if there will be a significant effect in the coming year from any ban on white fish catches.

We have not yet seen the Falkirk Visitor Centre operate for a full year. The pre-opening vandalism has lead to additional costs such as enhanced security and maintenance. The problem with the amphibious buses has lead to the deferment of sponsorship from Barrs. The delays in MCA certification for the Offshore 105 boats coupled with the reluctance to actually operate the boats once available has lead to significantly less income than anticipated in the budget. Not only are boat receipts down, but the large numbers of visitors has not been translated into retail and catering receipts. The Visitor Centre and Wheel at Falkirk can be hailed as both a huge engineering success and attraction for visitors, but much needs to be done to capitalise on this success.

Significant attention is required to make the visitor attraction profitable over the coming years. It may take a further two years before we can expect significant positive contribution. Detailed business plans for each section of the site have been drawn up. Cost and revenue generation will be closely managed on a daily basis over the forthcoming season. We do, however, consider that the Visitor Centre is seeding the development site itself and we must capitalise on the opportunities, which this presents as a principle node on the Lowland Canals.

In conjunction with HQ a sensitivity analysis was produced for the Scottish Executive showing a funding requirement of £12.9m compared with an announced base line grant of £8.4m for the financial year 2003/04.

While the Scottish Executive advise that they are unable to increase the baseline funding announced in the Spending Review, they do appear to be working with us, to close the funding gap. £13.3m of grant funding has been announced during 02/03, an increase of £6.2m on our current baseline. This includes £1.5m specifically to address the Crinan Road problem.

We can only be sure of the baseline grant but have produced a business plan based on this baseline grant of £8.4m plus anticipate additional grant of £2m. It is difficult to predict how much additional grant may be received but this is our best estimate.

Safety backlog works are our priority for 2003/04 and will be completed irrespective of whether additional grant is received from the Scottish Executive. Only when additional grant has been approved from the Scottish Executive will it be committed to other high priority works including statutory arrears, preventative maintenance and additional operations and service on the Lowland canals.

The overall Millennium link cost has held steady at £84.5m, but the settlement of Contract 6 is a significant risk not incorporated in the figures. Similarly we have not built in a cost for business rates being levied on the canal track, although the position is far from settled. The inspector has not raised an assessment but the potential liability is in excess of £1m. The collapse of the Carmuir's Tunnel portal below the Forth and Clyde canal is not anticipated to result in a significant liability to BW.

We have set sums aside to complete the title rectification work, required to ensure adequate protection regarding ownership of our land and buildings.

The main priorities in Scotland are:

**Scotland priorities**

- Develop the Lowland Canal corridor.
- Increase funding – both earned income and Government grant.
- Put Visitor Attraction at the Wheel on an even keel.
- Monitor our asset base in the light of deferment of Backlog and Arrears work.
- A smooth transition to SAP.

## Appendix 5 – PRIORITY VISITOR SITES

### **London region**

- Hanwell Locks

### **Southern region**

- Foxton Locks
- Braunston
- Marsworth
- Stoke Bruerne
- Caen Hill
- Bradford on Avon

### **Midlands region**

- Gloucester docks
- Hatton Locks
- Goytre Wharf
- Stourport
- Kingswood junction
- Tardebigge New Wharf

### **North east region**

- Wakefield warehouse
- Sowerby bridge

### **North west region**

- Bingley five rise
- Wigan pier
- Pontcysyllte aqueduct
- Hazelhurst aqueduct
- Red Bull

### **Scotland**

- Fort Augustus



## Appendix 6 – FREIGHT STRATEGY

### 1 BACKGROUND

- 1.1 British Waterways sold the majority of its Freight Division assets in 1989. Despite heavy investment into waterways and dock improvements, heavy losses were made as industry alongside the rivers declined and the convenience of road transport dominated.
- 1.2 More recently, the EEC has become increasingly aware of the environmental and social costs of new road building and increasing levels of congestion. Thus, Transport and Environment Ministers have, following a number of summits, engaged in active intervention to create more uniform environmentally sensitive market conditions between the road and the alternative modes of water and rail. These strategic initiatives are being financially supported by the European Parliament and Commission and at National Government levels by direct grant support of infrastructure and transport options that remove freight from roads.
- 1.3 Against this background, growing numbers of enquiries indicate that shippers are now increasingly more willing to rethink logistic and consider water transport for imports and long haul as the impact of road congestion, disruption, and most significantly road transport costs increase across the Community and from UK major ports.
- 1.4 In 2001, 2036.7 million tonnes of freight were lifted in the UK, an increase of 2.6% over 1991. Goods moved in tonne.kilometre units increased by 15.3% in the same period reflecting the fact that goods were being moved over greater distances due to changes in commodity mix, distribution patterns.

**Table 1 - Transport Mode Share**

	Road	Rail	Water	Pipeline
2001 - Total Lifted Million Tonnes	1,660	94	132*	151
2001 - % Share	81.5	4.6	6.5	7.4
% change in market share from 1991	+3.75 %	-30.9%	-8.54%	

\* See Table 2

The **Water Mode** is further split into three main elements:

- Coastwise
- One Port (including off shore installations, dredging and dumping)
- Inland Waters (both wholly within inland waters; internal, and seagoing which proceed on inland waters)

**TABLE 2 - WATER MODE SHARE**

	Coastwise	One Port	Inland waters
2001-Total Lifted Million Tonnes	59	35	54
% change from 1991	-7%	-19%	-15%

The main reasons for the declines indicated were:

- Coastwise: a 63% reduction in coal and bulk liquid **but offset by an increase in general cargo,**
- One Port: loss of sea dumped materials following EC Directives,
- Inland Waters: reductions in dry bulk, liquid bulk and forestry products **but offset by increases in unitised and general cargoes.**

However it is interesting to note the base trend increase in general and unitised cargoes on which part of the proposed BW Freight Strategy is based.

**Inland Water Traffic** is further split into:

- Internal: 2001, 4.6 Million Tonnes lifted
- Sea Going: 2001, 49.23 Million Tonnes lifted

**Table 3 - Inland Water Share**

Inland Water	Nav. Auth.	Internal Million Tonnes	Sea Going Million Tonnes	Total Million Tonnes
River Thames	PLA	2.3	18.5	20.8
River Medway	MP	0.5	2.0	2.5
River Severn	BW	-	0.5	0.5
River Mersey	MDH	0.3	7.0	7.3
Manchester Ship Canal	MSC	0.3	7.0	7.3
River Clyde	CP	0	1.6	1.6
River Forth	FP	-	9.6	9.6
River Humber	ABP	0.2	6.1	6.3
River Ouse	BW	0.4	2.8	3.2
Aire & Calder	BW	1.6	0	1.6
River Trent	BW	0.3	2.6	2.9
River Orwell		-	2.9	2.9
<b>TOTAL</b>		<b>5.9</b>	<b>60.6</b>	<b>66.5</b>

- 1.5 An analysis of the potential UK freight market over the next 10 years concludes that there are potential markets to enable British Waterways to meet its published target of doubling freight on our waters in the next 10 years. 3.5 million tonnes were lifted in 2002, so the target would be 7 million by 2013.

- 1.6 The commercial waterways can be exploited for estuary-river-commercial navigation as indicated in the AINA report and amplified by the FSG report. The capacity of the commercial network has been estimated as between 10 and 15 million tonnes per annum for a variety of dry bulk liquid and container cargoes depending on mix of traffic.
- 1.7 The broad and narrow canals can be exploited for short haul niche segment traffics, particularly waste and aggregates, but it is recognised that there are some locations where the local capacity of the waterways, availability of water, and newly developed use would make it very difficult to add significant freight movements to these parts.

## 2 FREIGHT OPPORTUNITIES FOR BRITISH WATERWAYS

### 2.1 Current Position

In year ending 2001, BW carried 3.8 million tonnes of which 1.2 million was material in Docklands for Canary Wharf and the rest on the Commercial Waterways and in 2001/02 the following mix of goods was recorded on the individual waterways listed.

**Table 4 - Goods Carried on BW Waterways 2001/02**

Waterway	Coal and Coke '000 Tonnes	Bulk Liquid '000 Tonnes	General '000 Tonnes	Total '000 Tonnes
Aire & Calder	903	92	242	1237
Calder & Hebble	0	0	0	0
SSYN	0	0	14	14
Trent	0	0	231	231
Ouse (Yorks)	0	0	223	223
Weaver	0	0	0	0
G&S	0	0	519	519
Severn	0	0	0	0
Docklands	0	0	550	550
Caledonian Canal	0	0	0	0
Crinan Canal	0	0	45	45
Total	900	80	1824	2819
Duplicated Traffic				
A&C/SSYN	-	-	(14)	(14)
A&C/Trent	-	-	(162)	(162)
Adjusted Total			1649	2644

A net decline on Aire and Calder traffic will be recorded in the current year due to St Aidans open-cast colliery becoming worked out and the consequential cessation of coal traffic to Ferrybridge Power Station late 2002.

## 2.2 Ten Year Trend

2.2.1 The slow decline over the ten years period from 1991/92 when approximately 4 Million Tonnes was lifted to now when under 3 Million Tonnes is lifted annually clearly illustrates the stark choice for British Waterways:

- a) To continue to manage the sunset years of freight merely acting as track provider and accepting those sustainable freight traffic opportunities which emerge, or
- b) To proactively engage with potential market opportunities driven by the major environmental factors now influencing UK transport policy.

2.2.2 It is considered that BW have already made several public statements in support of the Government's policy in encouraging freight from road to water so it would be difficult to merely allow the managed decline to continue. This paper addresses opportunities under the second option.

## 2.3 Potential Market Analysis

2.3.1 An desk study has been undertaken to analyse and process data drawn from authoritative UK statistical sources covering the main potential markets for freight on water which are:

- Containers
- Waste
- Aggregates

2.3.2 An assessment model has been built based upon the premise that freight tonnage and demand are directly correlated to population density. The model takes into account the growth in economy, population and assesses the potential freight available to BW over a future 10 year period. It is assumed that the goods currently lifted by rail and pipeline are not a target for mode share since they are consistent with EC and UK environmentally sensitive transport modes.

2.3.3 In summary, the model indicates the following opportunities:

**Table 5 - Potential Market Annual Tonnages**

Goods lifted Per annum	Upper Range	Median	Lower Range
	Million Tonnes	Million Tonnes	Million Tonnes
Waste	11.7	8.7	5.8
Aggregates	5.8	4.0	2.7
Containers	1.5	0.8	0.3
<b>Total</b>	<b>18.7</b>	<b>13.5</b>	<b>8.9</b>

The totals indicated are consistent with the earlier work in the Governments White Paper “ A New Deal for Transport” which set a target of moving 3.5 % of road traffic (58.1 Million Tonnes in 2001) to water including short sea shipping routes. The AINA “ Strategy for Freight on Britains Inland Waterways” indicated that about 15 Million Tonnes of that target could be carried by the commercial waterways and ship canals.

## 2.4 Containers

- 2.4.1 The goods being carried by ships into ports, and lifted onward by road and rail are shown for each port group in **Map 1**-major Ports Goods Lifted 2001. The ports act as multi-modal/inter-modal freight distribution centres with a major role in the distribution chain. The proximity to the BW commercial waterways is self evident and there is already interest in the development of traffic to the Humber and penetrating inland from Rotterdam as a European Hub Port.
- 2.4.2 Of the total through ports, the container traffic is forecast to rise by 65% from 51.8 Million Tonnes to 85.5 Million Tonnes by 2016 representing nearly 12 million container units.
- 2.4.3 **Maps 2 and 3** show the Container Traffics in 2001 and Container Movements by Road respectively.
- 2.4.4 The major issues for BW Freight are:
- (a) Competitiveness of water transport, supported by grant,
  - (b) Compatibility of containers and vessel design to waterway standards,
  - (c) Waterway routes to container ports including inland ports,
  - (d) Inter-modal/Multi-modal facilities at inland container terminals at inland ports.
- 2.4.5 These issues are currently being addressed through the North Regions Inland Port Project which awaits a full survey of the Aire & Calder Navigation for links to the Humber Ports programmed for April 2003.
- 2.4.6 It is calculated that between 0.3 and 1.5 million tonnes could be transported by BW commercial waterways.
- 2.4.7 BW are represented particularly on several international bodies which enable good contacts in this area. These are:
- A REMARCC project for the promotion of inter-modal transport within the North Sea Region

- As Board members on Inland navigation Europe (INE) which has particular interest in influencing the European Parliament and Commission regarding “motorways of the sea” concept linking the inland navigations of member states.

## 2.5 Waste

- 2.5.1 The current total waste arisings in UK are estimated as 428 Million Tonnes per annum. Approximately 30 Million Tonnes is Municipal Waste (actual 33 Million Tonnes in 2001/02) and Construction and Demolition Waste account for 72 Million Tonnes, the rest being mainly industrial 50 million, commercial wastes 25 million, agricultural 87 million and dredging 47 million.
- 2.5.2 **Map 4** shows the various waste arisings by Local Government Regions. The majority of waste currently goes to landfill sites. 272 landfill sites are within 10 kms of BW commercial waterways. However European Directives will have a major impact on ensuring that a greater proportion of the wastes are recycled, composted or efficiently used as a fuel source.
- 2.5.3 It is recognised that numerous wastes in the waste stream are directly correlated to population, and in 2001/02 equated to 1.5 tonnes per household per annum. It is estimated that as 50% of the UK population live within a 5 miles corridor of BW waterways therefore 234 Million tonnes of transportable waste/recyclable material are available near a waterway per annum.
- 2.5.4 Waste lends itself for movement by water because of its low time sensitivity and consistency with Government Strategies particularly Best Practical Environmental Option (BPEO). But there are significant issues which need to be resolved regarding its movement in closed containers, handling facilities/infrastructure and associated social factors, and vessel design.
- 2.5.5 New EEC directives on increasing the amount of waste that should be recycled and reducing the amount going to landfill will fundamentally alter the way Local Authorities and industry deal with waste. The main infrastructure of the U.K. is focused around landfill and incineration. Over the next few years, there will be a major shift in infrastructure investment as local authorities refocus on recycling. This creates a major opportunity for B.W. to influence the siting of new recycling areas alongside appropriate ports of our network. We have already influenced Gloucestershire County Council to include Sharpness as one of the potential sites for a waste transfer station in their structure plan.
- 2.5.6 Pilot movement of segregated waste streams by vessel are programmed on the Birmingham Black Country canals, River Lee in London and a feasibility study is shortly to start in Scotland on the Forth and Clyde Canal for transfer to landfill site near Edinburgh.

- 2.5.7 Application to Biffa award for £300k funding has been made for a major study into sustainable waste transport in England and Wales has been made with the financial support of industry partners. We are already contributing to a similar study for Scotland.

## **2.6 Aggregates**

- 2.6.1 **Map 5** shows the annual consumption of aggregates by local government region. For England the Office of the Deputy Prime Minister suggests 214 Million Tonnes annual consumption, and other sources suggest approximately 14 and 32 Million Tonnes per annum for Wales and Scotland respectively.
- 2.6.2 Currently 91% is moved by road, 8% by rail with 1% being transported by water. There are 172 mineral sites within 10 km of BW commercial waterways. The product however is extremely cost sensitive but producers are increasingly willing to consider environmentally transport options often driven by planning considerations.
- 2.6.3 There is already traffic on the North East waterways, and traffic is programmed to start in 2003 on the Grand Union. Further interest has been expressed for significant traffic on the River Severn both to Diglis and south to the Gloucester area from abstraction sources close to the waterway.
- 2.6.4 We are working with the Minerals Industry Research Organisation (MIRO) along with Lafarge and RMC to put together a £300k application for aggregate tax levy funds to carry out a major study to see how our waterway can be exploited for transport of aggregates.

## **3 CONSTRAINTS**

### **3.1 Freight Vessels and Crew**

- 3.1.1 Freight Vessels and crew on B.W. waters are currently unregulated. The exception is those craft plying between estuarial waters and B.W. rivers which are covered by the Marine Coastguard Agency (MCA) regulations, covering craft standards and crew.
- 3.1.2 We are addressing this by introducing a craft registration system from April 2003, which will require vessels to be of a certain standard. The standard we have chosen are current Port of London Authority standards applied on the Thames.
- 3.1.3 In addition, we will require demonstration of crew competencies similar to B.W. Helmsman Certificates. We are supported in both these initiatives by the MCA who are likely to take over regulation in the next few years as EEC legislation comes into force. Along with the MCA, we are taking a pragmatic approach to encourage operators to register their vessels and have them properly inspected.
- 3.1.4 The inland waterway fleets are generally old and of poor quality. There are exceptions, such as a £1 million tanker barge recently introduced onto the Aire and Calder.

- 3.1.5 It is anticipated that the lack of vessels and competent crews will be a severe limitation to growth without intervention. Industrial partners have an acerbic view of current operators and are very worried about their exposure to risk created by poor practice.
- 3.1.6 On the broad and narrow canal network, the traditional craft lobby have an unrealistic view on the contribution that these type of craft and operations can make, however, it is important that such operations are encouraged, since they do serve valuable niche markets and provide a colourful backdrop to our leisure business.

## **3.2 Wharves**

- 3.2.1 We have undertaken a survey of all wharves on all of our network and the results have been put onto a GIS database. The survey covered not only current wharves, but historic wharves that potentially could be brought into use. Over 700 wharves were identified, 90% of which are in private ownership.
- 3.2.2 Many wharves have been lost to residential and commercial developments in city/town centres. This is an inevitable outcome arising from market pressures, desires of the planners and poor infrastructure around these areas that restricts freight development. Where B.W. wharves are lost and where there are proven markets, we have committed to acquire/create new wharves.
- 3.2.3 We are currently talking to operators on two sites to create 'multi' operator and multi-use wharves. We believe this is the future and enable costs to be defrayed across a number of operations.

## **4 WAY FORWARD**

- 4.1 Freight is a B.W. core operating activity. We will act commercially, but need to recognise the wider benefits that accrue. At times, this may mean accepting a lower return than pure commercial projects.
- 4.2 We will work to maintain existing traffic.
- 4.3 New businesses will be focused on waste, aggregates and containers. We will not be distracted by the traditional craft lobby for freight everywhere.
- 4.4 We will reinforce our understanding of the waste and aggregates market through the Biffa awards and M.I.R.O. studies respectively.
- 4.5 We will talk directly with customers and find means to make waterborne freight easy and as certain as possible. At times, this will bring us into direct conflict with some of our lifestyle operators.



Options for operation of freight will be:

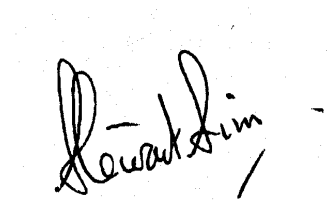
1. Joint Venture with the customer.
2. Joint Venture with an operator, not necessarily currently operating on B.W. waters.
3. Build new vessels and lease to operator against a specific freight contract. This is an approach we have currently implemented on some new aggregate traffic on the Grand Union Canal with Harleyford/Hanson.
4. Other innovative contracts that put B.W. in charge of delivery, but balances risk with the customer and/or other operators.

## 5 MILESTONES

- |    |  |                                |
|----|--|--------------------------------|
| 1. | Implement regulatory regime for freight vessels and crew   | <b>April 2003</b>              |
| 2. | Application for funds for waste and aggregates studies:  |                                |
|    | Waste -  | <b>Submitted February 2003</b> |
|    | Aggregates -   | <b>May 2003</b>                |
| 3. | 3 new aggregate traffic projects started and using the network.  | <b>April 2004</b>              |
| 4. | Contacts made with all Local Authorities where our network could be used as a potential waste carrier. | <b>December 2003</b>           |
| 5. | Exemplar Joint Venture formed  | <b>April 2004</b>              |
| 6. | Feasibility and trials for container traffic on the Aire & Calder completed.                           | <b>September 2003</b>          |
| 7. | Projected FFG funding requirement for the next 3 years submitted to Department of Transport FFG Unit.  | <b>October 2003</b>            |

## 6 ATTACHMENTS

- |              |  |
|--------------|--|
| <b>Map 1</b> | Major Ports Goods Lifted 2001                                      |
| <b>Map 2</b> | Major Ports Container traffic 2001                                 |
| <b>Map 3</b> | Local Government Office Regions of UK – Container Movement by Road |
| <b>Map 4</b> | Local Government Office Regions of UK – Waste Arisings             |
| <b>Map 5</b> | Local Government Office Regions of UK – Aggregates                 |



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19<sup>th</sup> March 2003