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**BRITISH WATERWAYS
3 YEAR CORPORATE PLAN
2005/06 – 2007/08**

BRITISH WATERWAYS' 3 YEAR CORPORATE PLAN 2005/06 TO 2007/08

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1 INTRODUCTION

This document presents British Waterways' plans for the years 2005/06 to 2007/08 and forms part of our strategic planning process.

The policy documents *Waterways for Tomorrow*, *Scotland's Canals – an asset for the future* and *Waterways for Wales* are the basis for setting our long term aims and objectives. We produce strategic guidance to provide the context for achievement of our short and medium term aims and objectives. It is a living document, which we update on a regular basis and is approved by the Board each year. This 3 year plan is informed by our 10 year strategic planning guidance and by local waterway plans and concentrates on the detailed financial plan, priorities and milestones that need to be met to achieve our long term objectives.

Separate plans have been produced for Defra covering the English and Welsh waterways and for the Scottish Executive covering waterways in Scotland. A summary of the Scotland plan is attached as Appendix 3.

Section 2 contains our plans for the 3 financial years 2005/06 to 2007/08. The business area analysis in Section 3 presents our 3 year plans with a focus on profitability and economic value. Throughout, priorities are highlighted along with milestones. These milestones will be reviewed and updated on a rolling quarterly basis.

Details on our wider objectives and corporate social responsibilities are explained in Section 4.

2 OUR PLAN FOR 2005/06 – 2007/08

2.1 Main changes from last year's plan

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

We are now realising the benefits of the structural re-organisation of the business and the introduction of SAP and have a much greater insight into how the business earns and spends its money. The greater transparency and focus that have been generated are enabling us to control our overheads in a more managed way and to produce robust and deliverable plans.

Planned profit contribution is largely in line with expectations over the plan period, although we anticipate higher profitability in year 1 and lower in year 2, due to the 'lumpy' nature of our ventures business area and one-off payments relating to utilities. Our prudent approach to corporate contingency planning has enabled us to allocate funds to our arrears programme in line with our Consequence of Failure model, as well as focusing investment in priorities designed to drive the long term strategy.

- 2.1.1 With the benefit of additional information from the enhanced inspection process and the use of SAP, we have been able to develop our understanding of the phasing of spending on clearing the outstanding maintenance arrears.

This has enabled us to tackle two key areas:-

- an immediate and thorough response to the priority customer complaints of dredging and vegetation management
- targeted funding to ensure an adequate programme of lock gate replacement occurs in all waterways.

As a result, the arrears spending has been re-phased and is now lower in the three plan years, with the corresponding increase falling in the subsequent periods. These changes are within the parameters of the high consequence of failure strategy and we remain on target to eliminate arrears by 2010, subject to the risks identified in our plan.

- 2.1.2 We have now received verbal confirmation that the £2.5m cut from the Defra grant for 2004/05 will be re-instated for 2005/06. This was previously included in the plan 'at risk'. In addition, a further £0.8m has been confirmed for year 1. We hope that this level of grant funding will continue to be available in years 2 and 3, although confirmation of this has not yet been received. We have therefore included the additional £0.8m on an 'at risk' basis in years 2 and 3.

The Scottish Executive have confirmed that the baseline will increase by £2m from 2006/07 and by a further £0.5m from 2007/08. This does not change the quantum of grant previously included in 2005/06 but converts it from speculative ad hoc grant to confirmed baseline. The further £0.5m in the third year is completely new money.

We intend to continue to plan for ad hoc Scottish grant in 2005/06 of £2m and this will remain a risk item in the plan. The matching expenditure is planned so that it can be cancelled if the extra grant is not forthcoming by a pre-determined point in the year.

- 2.1.3 A triennial valuation of our pension fund took place during 2004/05, resulting in a reported deficit of £42m. We have identified a series of measures which will deal with this deficit and have included additional funding of £1m within each year of the current plan for this purpose.

- 2.1.4 Our approach to the Leisure business area has been evolving during the year particularly towards boats and boating. The completion of updated mooring plans indicates that last year's assumptions for the latter years of the plan are no longer appropriate and have been reduced in this plan. The adoption of the 'prospectus' approach to attract new private sector investment into offline moorings should result in additional income from connection charges later in the period, although nothing has been included at this stage.

There have also been changes to the scale of future retail and catering developments. The emphasis has moved towards customer information points with occasional supplementary retail opportunities, scaling back previous aspirations to develop directly managed business in this area. There is minimal impact on financial plans as no significant values were attributed to the aspirations last year due to the early stage of the thinking at that time.

Years 2 and 3 of the plan include £0.1m of new income from sponsorship deals, which we aim to progress during the first year. This income will help to further improve customer service provision in the Leisure area.

- 2.1.5 Restoration activities are largely in line with previous projections, although plans for the Cotswold Canals have been deferred by one year, due to delayed funding decisions.

- 2.1.6 We were notified in 2003/04 by the reservoir inspector that we need to carry out £1m of improvement works to Brent Reservoir and have since been arguing with the EA in an attempt to secure funding, as the works relate to flood protection. However, the EA criteria for judging the works required to deal with the flood risk differ enormously from those of the reservoir inspectorate. Due to the ongoing discussions, we have not had to carry out the works in 2004/05 and, whilst the exact timing remains uncertain, we have allocated contingency funds of £1m within the first year of the current plan.
- 2.1.7 Work has been continuing to develop new models to control the funding of the core operation. In particular, the steady state review is progressing in tandem with the outputs from the End to End Review. This plan now includes the impact of new approaches to our Core Waterway funding allocation, such as the replacement of lock gates and floating plant. The plan ensures that waterway units will replace at least 4% of their lock gates each year, which is in line with the 25 year average life-expectancy for the gates. Floating plant will be replaced in accordance with the plan approved by the Board in 2004.
- 2.1.8 In December 2004 the isis business plan was updated to reflect the latest knowledge and potential about each site and status of the market. This resulted in a re-phasing of expected profits returning to BW which have now been reflected in this plan.
- 2.1.9 At the time of writing, the Wood Wharf partnership is aiming to complete at the end of 2004/05. This venture has now been structured so as to release an additional income stream of £2m per annum from 2005/06 based on the land value transferred to the partnership. This value is now included in each plan year along with the benefit of £0.5m additional entry premium in the first year only. Other changes on the assumed returns from the project fall outside this plan period.
- 2.1.10 We have revised our strategy for Waterscape over the last year and the new strategy was approved by the Board in January 2005. This plan includes our updated financial projections.
- 2.1.11 We have revised the previous assumptions about the timing of the move from Willow Grange and Fearn's Wharf offices. There has been good progress in identifying a scheme to release Willow Grange but planning issues suggest that the release of value from the site might take longer than previously expected. The revised timings are now reflected in this plan.
- 2.1.12 The End to End Review has been completed and the Steering Group has endorsed a switch to contract instead of grant and an extension of our investment remit to non BW water corridors, which would be of benefit to our ventures business, for example.. The priority for 2005/06 will be to obtain Defra agreement to define and implement the recommended contract approach from April 2006.

This plan does not include any financial implications from this on the assumptions that any consequential reductions in funding levels will apply from 2008/09. In the meantime there are non-financial targets within the Corporate Services business area to put in place strategic procurement initiatives to cover any lower funding in later years.

2.2 Planned Performance against Critical Success Factors

The critical success factors for the delivery of this 3 year plan are carried forward from last year's plan, amended to take into account the findings from the End to End Review.

Critical Success Factors

- Maintain asset integrity / reliability and in particular deliver arrears programme in line with consequence of failure strategy.
- Deliver greater self-sufficiency particularly growing property, ventures and leisure business areas, taking full account of fair trading issues.
- Embed new culture within the business particularly with regard to safety, openness and accountability, sustainability, commercial awareness and customer service.
- Ensure vision, strategy and 3 year plan are understood throughout the organisation and everyone knows and accepts their part in delivering them.
- Achieve planned outcomes from completed restoration schemes.
- Implement the key recommendations from the End to End Review, especially the conversion of grant to a contract based payment, and the development of steady state/ efficiency models.

2.2.1 Performance Indicators

A 'dashboard' of performance indicators has been developed to measure performance against our vision and each of the critical success factors. The indicators currently planned are shown below.

| Dashboard of performance indicators for the vision and critical success factors | Targets 2005/06 |
|--|------------------------|
| <i>Vision Statement: Our ambition is that by 2012 we will have created an expanded, vibrant, largely self sufficient waterway network used by twice as many people as in 2002. It will be regarded as one of our most important and valued national assets. Visitors will be delighted with the quality of the experience and as a consequence many will become active participants.</i> | |
| • Growth in footfall measured by surveys and counters | 2.9m visitors |
| • Number of people surveyed assessing waterway visit as excellent. | 75 (index rating) |
| • % of people surveyed recognising waterways as 'a valued national asset'. | 45 |
| <i>Maintain asset integrity / reliability and in particular deliver arrears programme in line with consequence of failure strategy.</i> | |
| • Number of kilometres below target water availability and quality. | < 9% |
| • % of AIP (Asset Inspection Procedures) inspections completed. | 100% |
| • Net number of assets moving to an improved condition category. | 280 |
| • Number of assets requiring unplanned reactive works in period. | Nil |
| <i>Deliver greater self-sufficiency particularly growing property, ventures and leisure business areas.</i> | |
| • EVC of profit generating businesses compared to plan. | EVC of at least £33.6m |
| • Major ventures formation: performance against project critical path. | < 5% slippage |

| | |
|---|--|
| • Growth in recurring directly earned income: year on year and compared to plan. (Total income excl grant and third party contributions) | At least £99m |
| • Change in the number of boats licensed. | > 800 |
| • Net increase in permanent BW moorings (berths and metres) | 4% increase in berths 210 more metres |
| • % of BW moorings occupied (berths and metres) | 80% |
| • Value of investment & disposal deals closed as % of full year targets. | 100% |
| • Weighted IRR of investments – approved & deals closed. | > 8% |
| <i>Embed new culture within the business particularly with regard to safety, openness and accountability, sustainability and commercial awareness.</i> | |
| • Annual rolling average of reportable staff accidents. | 0 |
| • % of total complaints resolved locally within 20 days. | 100% |
| • % of complaints progressing to level 2. | 5% |
| • Reduced business mileage. | 5% reduction |
| • Reduced energy consumption. | 5% reduction |
| • Assets removed from the planned arrears programme. | 248 |
| • Baseline core waterway cost per km. | £12.1k |
| • Corporate services costs as % of total income. | < 13.2% |
| • Total fixed costs to turnover ratio. | 46% |
| <i>Ensure vision, strategy and 3 year plan are understood throughout the organisation and everyone knows and accepts their part in delivering them.</i> | |
| • Number of Director visits to waterways and Chief Executive Briefings to discuss and receive feedback on how well the vision, strategy and plans are understood. | No target |
| • % employee turnover. | < 10% |
| • % employees considered as suitable for development to senior management and above. | 2.5% |
| • Absence days per employee. | < 9 days |
| <i>Achieve planned outcomes from completed restoration schemes.</i> | |
| • % planned outputs delivered by completed restoration schemes. | 100% |
| • % of planned 3 rd party funding contractually committed (forward order book). | 50% |
| • Size of pipeline for future dowry contracts. | £30m |

2.3 Financial Performance by Business Area

2.3.1 Summary

The following tables show planned business area performance over the plan period, with forecast 2004/05 figures for comparison.

Figures in £m

| | 2004/05 Q3 F'cast | 2005/06 Plan | 2006/07 Plan | 2007/08 Plan |
|--|----------------------|-----------------|-----------------|-----------------|
| Profit Generating Businesses | | | | |
| Contribution after Depreciation | | | | |
| Property | 18.5 | 20.5 | 21.9 | 22.9 |
| Leisure | 10.3 | 11.3 | 12.0 | 12.7 |
| Ventures | (1.4) | 6.7 | 2.2 | 5.7 |
| Total | 27.3 | 38.5 | 36.1 | 41.2 |
| Value Consuming Businesses | | | | |
| Net Cost after Depreciation | | | | |
| Core Waterway | (67.0) | (71.2) | (77.7) | (78.9) |
| Corporate Services | (28.3) | (26.3) | (25.6) | (25.2) |
| Restoration | (0.8) | (0.6) | (0.5) | (0.5) |
| Contingency | (3.6) | (4.0) | (4.0) | (4.0) |
| Total | (99.7) | (102.1) | (107.7) | (108.6) |
| BW Group Results | | | | |
| Net Operating Result before Grant | (72.4) | (63.7) | (71.7) | (67.4) |
| Net Interest Payable | (2.0) | (1.3) | (1.2) | (1.0) |
| Grant | 72.8 | 74.6 | 74.6 | 75.1 |
| Transfer to Capital Reserve | 2.5 | 0.3 | 0.3 | 0.3 |
| Funds for Priority Investment | (5.0) | (5.0) | (7.0) | (7.0) |
| Accounting Net Result after transfers | (4.1) | 5.0 | (5.0) | (0.0) |

| | | | | |
|----------------------------|---------------|---------------|---------------|---------------|
| EVC Summary | | | | |
| Property | 57.5 | 17.6 | 18.0 | 25.3 |
| Leisure | 9.7 | 10.7 | 11.4 | 12.1 |
| Ventures | (2.7) | 4.6 | (0.3) | 2.9 |
| Core Waterway | (68.6) | (72.9) | (79.4) | (80.7) |
| Corporate Services | (29.6) | (27.6) | (26.8) | (26.2) |
| Restoration | (0.9) | (0.7) | (0.6) | (0.6) |
| Contingency | (3.6) | (4.0) | (4.0) | (4.0) |
| Business Area Total | (38.3) | (72.4) | (81.6) | (71.3) |
| Priorities Fund | (5.0) | (5.0) | (7.0) | (7.0) |
| Grant | 72.8 | 74.6 | 74.6 | 75.1 |
| Total EVC | 29.4 | (2.7) | (14.0) | (3.1) |

2.3.2 Value creation by business area

Profit Generating Businesses

Figures in £m

| | 2004/05 Q3 F'cast | 2005/06 Plan | 2006/07 Plan | 2007/08 Plan |
|------------------------------------|----------------------|-----------------|-----------------|-----------------|
| Property | | | | |
| - Income | 27.6 | 28.7 | 29.6 | 30.6 |
| - Controllable Costs | 8.7 | 7.9 | 7.5 | 7.5 |
| - Contribution before Depreciation | 19.0 | 20.8 | 22.1 | 23.1 |
| - Depreciation | 0.5 | 0.2 | 0.2 | 0.2 |
| - Contribution after Depreciation | 18.5 | 20.5 | 21.9 | 22.9 |
| - EVC | 57.5 | 17.6 | 18.0 | 25.3 |
| Leisure | | | | |
| - Income | 18.1 | 19.5 | 20.4 | 21.2 |
| - Controllable Costs | 7.5 | 7.9 | 8.1 | 8.2 |
| - Contribution before Depreciation | 10.6 | 11.6 | 12.3 | 13.0 |
| - Depreciation | 0.3 | 0.3 | 0.3 | 0.4 |
| - Contribution after Depreciation | 10.3 | 11.3 | 12.0 | 12.7 |
| - EVC | 9.7 | 10.7 | 11.4 | 12.1 |
| Ventures | | | | |
| - Income | 8.2 | 16.9 | 14.8 | 20.4 |
| - Controllable Costs | 9.5 | 10.1 | 12.4 | 14.6 |
| - Contribution before Depreciation | (1.4) | 6.8 | 2.4 | 5.8 |
| - Depreciation | 0.1 | 0.1 | 0.2 | 0.1 |
| - Contribution after Depreciation | (1.4) | 6.7 | 2.2 | 5.7 |
| - EVC | (2.7) | 4.6 | (0.3) | 2.9 |

Value Consuming Businesses

Figures in £m

| | 2004/05 Q3 F'cast | 2005/06 Plan | 2006/07 Plan | 2007/08 Plan |
|--------------------------------|----------------------|-----------------|-----------------|-----------------|
| Core Waterway | | | | |
| - Income | 44.3 | 42.5 | 42.5 | 39.9 |
| - Controllable Costs | 108.7 | 111.0 | 117.5 | 116.1 |
| - Net Cost before Depreciation | (64.4) | (68.5) | (75.0) | (76.2) |
| - Depreciation | 2.6 | 2.7 | 2.7 | 2.7 |
| - Net Cost after Depreciation | (67.0) | (71.2) | (77.7) | (78.9) |
| - EVC | (68.6) | (72.9) | (79.4) | (80.7) |
| Corporate Services | | | | |
| - Income | - | - | - | - |
| - Controllable Costs | 27.4 | 25.4 | 24.5 | 24.5 |
| - Net Cost before Depreciation | (27.4) | (25.4) | (24.5) | (24.5) |
| - Depreciation | 1.0 | 1.0 | 1.0 | 0.7 |
| - Net Cost after Depreciation | (28.4) | (26.4) | (25.6) | (25.2) |
| - EVC | (29.6) | (27.6) | (26.8) | (26.2) |
| Restoration | | | | |
| - Income | 5.6 | 17.7 | 23.3 | 15.1 |
| - Controllable Costs | 6.3 | 18.2 | 23.8 | 15.5 |
| - Net Cost before Depreciation | (0.8) | (0.6) | (0.4) | (0.4) |
| - Depreciation | 0.1 | 0.0 | 0.0 | 0.0 |
| - Net Cost after Depreciation | (0.8) | (0.6) | (0.5) | (0.5) |
| - EVC | (0.9) | (0.7) | (0.6) | (0.6) |

2.3.3 Commentary

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

2.3.3.1 Profit generating businesses

Our profit generating businesses are expected to achieve a contribution after depreciation of £38.5m in 2005/06, £2.8m higher than anticipated in last year's plan. This represents a 7.8% increase on the previous plan, which is largely due to the success of our ventures.

The nature of our ventures business is such that the annual contribution will not grow smoothly year on year, and we expect a dip in performance in year 2 of the plan. As a result, total contribution after depreciation for our profit making businesses falls by 6% to £36.1m in year 2, rising again in the final year by 10% to £41.2m.

Property contribution increases on average by 5% per annum over the plan period, due to the churning of the estate and a focus on cost reduction. The apparent drop in economic value created is due to exceptional unrealised property gains in 2004/05, generated by a combination of hard work, improved systems and market performance.

Income projections in the Leisure area are 4% lower than set out in last year's plan, largely due to the challenging targets that we set in respect of boating income. We are no longer seeking to develop large scale mooring sites within the Leisure business, but will instead support such development through BWML, which is reported through our Ventures area.

Profitability follows a similar trend, rising by 8% on the forecast 2004/05 out-turn to 59% in year 1, 56% in year 2 and 57% in year 3.

Our plan relies upon the ability to carry forward small amounts of the profit that we earn in an above average year into those years when income potential is lower. This will enable us to make the best use of our funds and we are hopeful, as we seek to implement the results of the End to End Review, that this will be agreed by Defra (see Risks section 2.6.1.1).

2.3.3.2 Value consuming businesses

Plans for our value consuming businesses reflect our continuing strategy to tightly control costs and to apply the profits outlined in 2.3.3.1 above into the maintenance and improvement of the waterway network.

Controllable costs within all business areas are being tightly managed and this is particularly visible within the Corporate Services area, where we aim to reduce annual costs by over 9% in real terms by the end of 2007/08. This will be achieved primarily by targeting savings on the cost of our office accommodation.

As a result, net expenditure within the Core Waterway business area increases from £70.4m in 2005/06 to £76.9m and £78.1m in the two subsequent years. The increase in 2006/07 is due to a further £5m planned expenditure on our statutory arrears, which continues into 2007/08.

Restoration activity steps up in the plan period, with year one construction works on the Liverpool Canal Link £6.4m, Bow Back Rivers £3.1m, Droitwich Canal £2.8m and Cotswolds Canals £1.9m. The net cost of the restorations is expected to drop from £0.8m in year one to £0.6m by year 3.

2.4 Capital Expenditure

2.4.1 Commercial capital expenditure

Commercial expenditure priorities

- Delivery of the commercial investment strategy, including acquisitions, disposals, portfolio mix and target returns
- Continue strategic (early) acquisition of land in priority regeneration areas
- Continue the disposal of low value and poorly performing property assets, in particular, delivering the property disposals identified by the operational property review.

Our investment strategy for 2005/06 is driven by the amount of capital proceeds expected to be provided by property disposals. This is planned to be £54m in 2005/06 plus £17m of cash carried over from the prior year. Of this, £27m is required to fund existing and proposed joint ventures, with a further £10m proposed for directly managed enterprises, de minimis projects and property investment for leisure occupancy (mostly boating related and within the leisure business area). £26m will be applied to investment and development opportunities, which will deliver a number of BW objectives: immediate rental income to fund the business; future development pipeline to provide capital growth prospects towards the end of the 10 year plan; and BW involvement in the next regeneration sites. We anticipate a cash balance at the year end of approximately £6m.

| | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---------|---------|---------|---------|
| Disposals | | | | |
| Investment | 45 | 12 | 4 | 10 |
| Development | 15 | 44 | 31 | 17 |
| Joint venture - equity repaid | | 7 | 2 | 4 |
| Waterway track support | | 1 | | 8 |
| Contingency | | (10) | 3 | 1 |
| | 60 | 54 | 40 | 40 |
| Investments | | | | |
| Investment | 31 | 13 | 10 | 10 |
| Development | 4 | 13 | 10 | 13 |
| Joint venture - equity invested | 8 | 27 | 13 | 8 |
| Directly managed | 5 | 3 | 3 | 3 |
| Deminimis | 1 | 3 | 3 | 3 |
| Property investment for leisure occupancy | 1 | 4 | 4 | 4 |
| Tax | 50 | 63 | 43 | 41 |
| Other | | | | |
| Tax payment | (5) | (5) | (5) | (5) |
| Pension repayment/ payment | (6) | 6 | | |
| | (11) | 1 | (5) | (5) |
| Cash b/fwd | 15 | 14 | 6 | 3 |
| Cash c/fwd | 14 | 6 | 3 | 2 |

As agreed with the Scottish Executive, this plan assumes that capital to the value of £12m will be invested in income earning assets, ie property investment or development, leisure or ventures, in Scotland in year 3. This is expected to generate approximately £0.7m of income per annum.

Commercial capital milestones

- Disposal receipts of £54m, £40m and £40m in 2005/06 to 2007/08 respectively.
- Investment target of £63m, £42m and £42m in 2005/06 to 2007/08 respectively, in line with investment strategy.

2.4.2 Operational capital expenditure

Operational capital expenditure priorities

- Replace old and life expired operational floating plant and machinery.

| £m | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Budget 2005/06 | Plan 2006/07 | Plan 2007/08 |
|-------------------|-------------------|-------------------|---------------------|-------------------|-----------------|-----------------|
| Operational capex | 4.5 | 1.3 | 1.3 | 1.0 | 1.0 | 1.0 |
| | 4.5 | 1.3 | 1.3 | 1.0 | 1.0 | 1.0 |

2.4.2.1 Financial commentary

The relatively high operational capital expenditure of £4.5m in 2003/04 comprised significant 'one-off' items, primarily SCADA telemetry equipment and capital connected with office relocations in the business reorganisation, together with some commercial vehicle replacements.

With the introduction from April 2004 of an IT outsourcing contract, the required level of operational capital investment has reduced significantly. The above table shows a nominal amount of operational capital for assets that fall outside of the leasing arrangements now in place.

Floating plant will be acquired under operating leases already established.

Operational capital milestones

- £5.6m of floating plant and equipment acquired March 2006

2.5 People

2.5.1 Safety

Safety is paramount in everything we do, for our visitors, neighbours and employees. We are committed to:

- Being recognised externally as class leaders in health and safety management.
- Promoting a culture of excellence and adopting of best practice in health and safety management.
- Managing accidents at an acceptable level within the limits of tolerable risk bearing in mind the unique nature of our heritage assets. For reportable accidents 'acceptable' is zero.

Private and Confidential

- Continuing to develop the competence of our people to work and manage safely and to deal effectively with emergencies when they occur.
- Implementing and maintaining management systems to ensure effective planning, organisation, control, monitoring and review of health and safety measures.
- Meeting safety performance targets, in particular our new benchmarking target based on Construction Industry Safety Benchmark Data produced annually by the DTI.

| Safety milestones | Year |
|--|-----------------|
| • New visitor incident reporting procedure introduced | June 2005 |
| • New safety training package for supervisors introduced | Sept 2005 |
| • All supervisors achieve NEBOSH safety qualification | March 2007 |
| • Achieve third quartile of Construction Industry benchmark for safety performance | April 2006 |
| • Achieve fourth quartile of Construction Industry benchmark for safety performance | April 2007 |
| • Win ROSPA Gold Safety Award (three successive years of good performance) | Sept 2007 |
| • Deliver the Arrears Programme | Ongoing to 2010 |
| • Demonstrate through Surveys that a Safety Culture has been integrated into all business activities | Annually |
| • Prevent Assets deteriorating into a Safety Backlog Condition again | Ongoing |

2.5.2 People priorities

| People priorities |
|---|
| <ul style="list-style-type: none">• Rebuild levels of trust and satisfaction to 2002 levels by the end of 2005/06.• Improve the quality of objective setting throughout the business ensuring alignment to the strategic business plan objectives.• Attract and retain the kind of people needed to develop the business.• Develop succession planning to produce senior management talent and minimise the need for external recruitment.• Improve the balance of the workforce to better reflect societal diversity.• Improve the reward system and reward people based upon their personal performance and contribution to the success of the organisation.• 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 and achieve further reductions in sickness absence.• Improve internal communications with all our people, developing a more open organisation with less status and barriers to two-way communication |

The importance of our people to the successful delivery of our strategy is recognised in all our plans. The key changes implemented during 2003/04 (SAP implementation, restructuring and redundancy programme) significantly impacted satisfaction levels. As we recognise the link between employee satisfaction and customer service delivery we have measured reductions in satisfaction and initial recovery levels and the key challenge for the next 3 years is to re-build trust and satisfaction to levels prior to restructure and then to upper quartile levels.

Improving internal communications and leadership are key to improving our record and we plan to put significant effort into these areas during the plan period.

Further development of our performance management processes will be delivered during 2005 bringing greater alignment with our strategic objectives. We plan to re-design our reward system to include core values in our competency framework.

Succession planning will be re-vitalised taking advantage of our new structure which supports a more structured approach to succession planning.

Raising awareness and understanding of the importance of diversity will continue to support our objective of improving the balance of our workforce to reflect the diversity of society.

2.5.3 Equal opportunities

In 1997 0.5% of our employees were from ethnic minorities and around 20% were female. In 2003/04 ethnic minority employee levels have increased to 1% of our workforce and female employees represent 24% with an increasing proportion of women moving into senior management positions. 20% of our total senior management group are female and 24% of the senior management positions in our waterway business units are female.

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 and to seek to reflect the diversity of the society we serve. Raising our people's cultural and diversity awareness is a key ongoing action.

| People milestones | Year |
|--|-------------------|
| • Review and improve Performance and Development Review process. | Sept 2005 |
| • Complete employee survey and begin to implement actions. | Dec 2005 |
| • Sunday Times top 100 status regained. | March 2006 |
| • Achieve targeted absence reductions. | June 2005 onwards |
| • Monitoring guide of 25% women in senior management | Dec 2005 |
| • Monitoring guide of 2% ethnic employees | Dec 2005 |

2.6 Top clients

The following table demonstrates that our top 25 clients account for some £27m of our 2004/05 income, over 30% of total earned income. Utility agreements represent 31% of this income, property rents 30% and telecommunications agreements 26%.

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

One hundred clients account for the next £11.5m of our 2004/05 income.

Our review of the current top 25 clients indicates a high level of stability over the plan period, with the following exceptions:

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

All of the top 25 clients have nominated account managers and we intend to develop the account manager approach over the plan period in order to improve our client relationships and to maximise our income potential.

2.7 Risks and Opportunities

2.7.1 Risks

2.7.1.1 Funding

The shape of the three year results are such that we will need to carry forward a small profit into the following years in both 2005/06 and 2006/07. The progress made during the End to End Review indicates that agreement on this should be forthcoming from Defra but there remains an element of risk to the plans for the second and third year if this proves not to be possible.

Scottish Executive funding has been confirmed for years 2 and 3 of the plan. However, year 1 of the plan assumes £2m of grant, which has not yet been confirmed.

Similarly, the plan includes £0.8m of additional Defra grant, which has been verbally confirmed for 2005/06, but which is included 'at risk' in our plan for each of the following two years.

2.7.1.2 Telecoms

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

2.7.1.3 Growth business

Challenging plans are in place for a number of new businesses such as isis, BWML, Waterside Pub Partnership and our new Telecoms Mast Partnership. Whilst we believe the plans are achievable, there are clearly risks of underachievement in these areas. Waterscape and Watergrid are both currently under review.

2.7.1.4 Regulation

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

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

Within the context of consultation with our stakeholders and resolution of customer complaints, we intend to improve transparency in our decision making process through the four principal components of our approach to openness and accountability:

- a more streamlined and responsive internal complaints procedure that takes full advantage of our flatter management structure post-restructure (implemented)
- a re-constituted and updated Waterways Ombudsman Scheme that is transparently independent from British Waterways (in progress)
- a new national consultative framework that is representative of all significant groups and bodies that have an interest in the waterways, including arrangements for elected committees to have direct access to our Board and senior management (in progress)
- improved procedures for direct consultation, including following the Cabinet Office Code of Practice on Written Consultations for all national written consultations (implemented).

2.7.1.5 Restoration schemes

There is a risk in the plan relating to income for restoration schemes and only the Port Dundas scheme is fully funded at the time of writing. Highly speculative schemes have not been included in this plan, but there remains a timing risk with these projects.

The exposure is largely on turnover, as expenditure will slip correspondingly if income is delayed. However, certain schemes, such as the Droitwich and Cotswolds will require BW to carry the risk of cost overrun. We need to ensure early identification of cost over-runs through effective project management, with robust cost control and contract management processes in place. Depending on the phasing of the schemes, we may need to provide contingent cover for these risks in addition to the operating costs contingency included in the plan.

There is a presumption that staff costs currently covered by third party funding can be absorbed into vacancies in the core business if the funding comes to an end.

2.7.1.6 Release of office space

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

2.7.1.7 Utility income

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

2.7.1.8 Falkirk visitor centre

The Leisure business area results shown in this plan rely on the successful delivery of enhanced performance from the Falkirk visitor centre in the first year. The combined effect of higher revenue and increased costs gives a gross exposure of up to £700k.

2.7.1.9 Edinburgh Quay

Ventures business area figures for year 3 include a profit distribution from the Edinburgh Quay joint venture in respect of Phase 2 site development, the approval for which has yet to be obtained. If this approval is delayed or is not forthcoming, there is a net exposure of £3.5m in the 2007/08 contribution quoted in this plan.

2.7.2 Opportunities

2.7.2.1 East Manchester – New Islington Development

New Islington Development is a new mixed-use development proposed by New East Manchester which involves the creation of a new area of waterspace. The waterspace will be connected to our water and the proposal is for BW to undertake the operation and maintenance of the waterspace potentially funded through a dowry.

2.7.2.2 Peel Holdings

We are building very good relationships with Peel Holdings that covers Gloucester Quays JV, the Bridgewater Canal management and dowry, Weston Point Docks, Bowling redevelopment, our disposal of Ellesmere Port and other smaller initiatives. There is the potential to create a powerful and productive strategic alliance with Peel over the plan period.

2.7.2.3 Dowry supported acquisitions

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

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

2.7.2.5 Release of office space

The planned vacation of offices in Watford and Leeds will generate significant capital for reinvestment or ongoing revenue in the form of property rents. The potential upside from this scenario is not included at this stage as it is deemed to be too speculative.

2.7.2.6 Sponsorship

A project is being assembled to investigate sponsorship opportunities, which could be applied to our assets or activities. We have included £0.1m of costs for this opportunity in the first year of our plan, with £0.1m of income in future years, which we believe to be a conservative estimate.

2.7.2.7 Capital availability

We recognise the potential future constraints on the capital available for investment and will complete an options analysis during the early part of 2005/06 to identify opportunities for

earning future revenue streams from non-capital-intensive investments. The plan does not include any associated future income at this stage.

2.7.2.8 Marina prospectus

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

3 BUSINESS AREAS

3.1 Property Investments

3.1.1 Key property priorities

Property priorities

- Effective management of the interface and identification of new sites with isis and other property based ventures
- Identify further development sites for Pub Partnership
- Continue strategic (early) acquisition of land in priority regeneration areas
- Enhance value of major development sites by reaching agreed development milestones on time
- Provision of relevant management information to teams to help prioritise actions
- More efficient management of the property business area cost base and more accurate cost allocations between business areas
- Register all property titles with Land Registry
- Preparation of Outline Business Case for options to address future constraints on the availability of capital
- Resolution of outstanding property issues with boating business clients
- Delivery of property business area's role in the development of new marinas

The property business area comprises approximately 1,400 property assets across investment (held for income growth), development (held for capital growth) and leisure (held for income growth) classes. Combined the assets are valued at some £440m. Of this circa £100m of assets are unlikely to be traded due to their close relationship with the waterway network with the remainder available for sale if we chose to do so subject to market conditions and developing assets to deliver best value to BW.

Over the plan period we anticipate selling assets totalling £130m, the proceeds of which will be used to reinvest in other acquisition opportunities. As part of this asset 'churn' we seek to rationalise further the estate by selling low value and high management cost properties.

We will also continue to develop our property estate through our ventures which have the expertise and resources required to make the most of the land we own (eg isis, Pub Partnership, BWML, Wood Wharf and the other site specific joint ventures). Our investment

strategy sets out how much of the cash generated from property disposals is planned to be invested into our ventures.

3.1.2 Financial projections

| | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-------------------|-------------------|---------------------|-----------------|-----------------|-----------------|
| Income | 24.7 | 25.8 | 27.7 | 28.7 | 29.6 | 30.6 |
| Expenditure | | | | | | |
| Controllable costs | 7.2 | 7.6 | 8.7 | 7.9 | 7.5 | 7.5 |
| Contribution before depreciation | 17.6 | 18.2 | 19.0 | 20.8 | 22.1 | 23.1 |
| Depreciation | 0.5 | 0.3 | 0.5 | 0.2 | 0.2 | 0.2 |
| Contribution after depreciation | 17.1 | 17.9 | 18.5 | 20.5 | 21.9 | 22.9 |
| Profit / (loss) on disposal of non property assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting Profit / (loss) | 17.1 | 17.9 | 18.5 | 20.5 | 21.9 | 22.9 |
| Less 6% cost of capital charge | 18.2 | 24.1 | 24.1 | 23.9 | 24.8 | 25.6 |
| Profit / (loss) on property disposals | 4.9 | 4.9 | 13.0 | 5.0 | 5.0 | 5.0 |
| Unrealised gains / losses | 47.3 | 22.0 | 50.0 | 16.0 | 16.0 | 23.0 |
| Economic value created / (consumed) | 51.0 | 20.7 | 57.5 | 17.6 | 18.0 | 25.3 |

3.1.3 Financial commentary

The 2005/06 contribution from Property is forecast to be £2m (10.8%) above that reported for the previous year. This is due to the completion of outstanding rent reviews and concluding the acquisition of Camden Interchange which will generate £1.8m of rent in 2005/06 (in 2004/05 the income from the staged acquisition was shown as interest outside the property business area). The Wood Wharf partnership is planned to be signed in March 2005; this deal has been structured to provide rental income of £2m pa from 1 April 2005. This increase in income is partially offset by the reduction in rents receivable due to properties transferring to isis and WP5. Controllable costs have been challenged in the three year plan to ensure proper allocation between business areas and alignment with key priorities.

Over the three year plan period, income is expected to grow by approximately 3% per annum. This modest growth reflects the effect of rent reviews only as there is no new net capital investment into the property business area, simply a churning of the existing estate. Controllable costs are planned to be held at around £7m pa. By 2006/07 we plan to achieve our goal of restricting controllable costs to 20% of income in relation to the investment estate.

In 2004/05 we have sold a number of investment properties which have realised significant profit on disposal. These large transactions are not expected to continue in 2005/06 and any profit on disposal will only be the extent to which the sale price exceeds book value (see below). Profit on disposal of property is anticipated to be £5m per annum over the plan period.

2004/05 is expected to be an exceptional year for unrealised gains on our property portfolio. This is driven by several factors: the BW property teams have been much more focused this year through a combination of the restructure, better financial information from SAP and relevant management information to help drive value and corporate objectives. This has resulted in some significant uplifts on the development estate through achieving planning permissions, site assembly and development agreements. The estates teams have similarly created value by ensuring that rent reviews are completed, voids reduced and reduced costs by disposing of high management properties.

We anticipate unrealised gains on the property estate of £16m in 2005/06; £16m in 2006/07 and £23m in 2007/08.

Our expectations for realised and unrealised gains on property are lower than historically since major revaluations are now better reflected in the book value and due to the cooling of the property market. We currently expect the market to recover in 2008/09.

EVC shows a significant drop from 2004/05 to 2005/06 due to exceptionally high realised and unrealised gains in 2004/05 as described above. EVC in 2006/07 shows little movement from 2005/06 during an anticipated slow property market with growth expected from 2007/08.

3.1.4 Commercial commentary

The property business area is affected by three key factors: the property market, progress in maximising returns from our investment estate and achieving milestones on the development estate.

During 2004/05 we have sold a number of income producing investment assets to capitalise on a strong property market and generation of cash to re-invest into growth sectors. [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000] These funds, along with other disposal proceeds, need to be reinvested quickly into new income generating opportunities to ensure that contribution from property continues to grow.

During 2005/06 we expect to create a number of property ventures, of which Gloucester Quays and Wood Wharf are the most significant. The establishment of a joint venture with Peel Holdings to develop Gloucester Quays is now planned to complete during 2005/06 and will result in lost annual income of £0.4m following the transfer of properties to the joint venture vehicle. The benefits from Gloucester Quay will not be received until outside of this 3-year plan. At Wood Wharf the plan includes a rental income of £2m pa from the site with the land likely to be drawn down by the partnership outside the plan period.

The plan recognises those properties to be transferred to the waterside pub partnership, which will create a loss of income to the property business area and an increase to ventures. Property business area now also includes the rental income from BWML on the sites leased to the venture.

3.1.5 Property milestones

| Property milestones | Year |
|---|-----------------------|
| • Controllable costs of investment property business represent < 20% of income. | April 2006 |
| • Disposal of at least 75 low value properties in line with the disposal paper prepared by the Property Development Managers North and South. | March 2006 |
| • [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000] | Ongoing to March 2008 |
| • Wood Wharf successfully transferred to a new partnership vehicle. | June 2005 |
| • Gloucester Quays transferred successfully to joint venture with Peel Holdings. | June 2005 |
| • Complete property registration for 20% of all property. | March 2006 |
| • 100% completion of property registration. | March 2008 |
| • Complete outline business case options to address future constraints on the availability of capital. | Sept 2005 |

- Identify at least five new sites per year for Pub Partnership. Ongoing to March 2008
- All outstanding boating rent reviews, lease renewals, disputes to be resolved. Sept 2005

3.2 Ventures

3.2.1 Ventures priorities

Ventures priorities

- BWML to achieve its second year business plan target
- Establish Wood Wharf JV to enable achievement of agreed targets at acceptable risk
- Demonstrate commercial viability of Waterscape
- Secure letting / disposal of Edinburgh Quay
- Establish Gloucester Peel JV and achieve business plan
- Achieve Isis business plan targets
- Demonstrate commercial viability of Watergrid
- Complete investment JV outline business case
- Deliver WP5 business plan and pub developments
- Achieve plan and milestones for the site specific JVs

The ventures business area includes a diverse range of business activities including trading companies; property development companies and non property companies. They also cover a range of structures including limited companies, limited partnerships and trade investments. The ventures included within this plan are:

| Leisure Businesses | Multi site property | Site specific Property | Other | Ventures under formation |
|---------------------------|------------------------|------------------------|-------------------------|--------------------------|
| BW Marinas | Isis | City Road Basin | Watergrid | Wood Wharf |
| Waterscape | H ₂ O Urban | Edinburgh Quay | Paddington Basin Barges | Gloucester Quays |
| Waterside Pub Partnership | | Timberbasin | Waterwise | Stoke Festival Waters |

There are also a number of other smaller companies, in which BW has an interest, which are formed to manage common areas of property developments, eg West India Quay Management Company Limited. There are no significant transactions or risks associated with these companies and they are not described further.

| | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-------------------|-------------------|---------------------|-----------------|-----------------|-----------------|
| Income | 1.0 | 8.4 | 8.2 | 16.9 | 14.8 | 20.4 |
| Expenditure | | | | | | |
| Controllable costs | 2.9 | 9.7 | 9.5 | 10.1 | 12.4 | 14.6 |
| Contribution before depreciation | (1.9) | (1.3) | (1.3) | 6.8 | 2.4 | 5.8 |
| Depreciation | 0.0 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 |
| Contribution after depreciation | (1.9) | (1.4) | (1.4) | 6.7 | 2.2 | 5.7 |
| Profit / (loss) on disposal of non property assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting Profit / (loss) | (1.9) | (1.4) | (1.4) | 6.7 | 2.2 | 5.7 |
| Less 6% cost of capital charge | 0.4 | 1.2 | 1.3 | 2.1 | 2.5 | 2.8 |
| Economic value created / (consumed) | (2.3) | (2.6) | (2.7) | 4.6 | (0.3) | 2.9 |

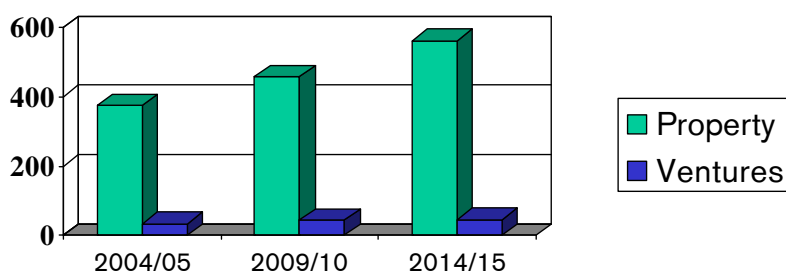
3.2.2 Financial commentary

The ventures plan is anticipated to come into profit for the first time in 2005/06 driven by the planned trading profit of BWML, reduced losses at Waterscape and distributions from Edinburgh Quay and Isis and premium from Wood Wharf. In subsequent years City Road Basin, H₂O Urban and WP5 add to the contribution.

The trading performance of ventures is very lumpy in nature as individual ventures come on line and either provide cash to BW or use retained earnings to create internal growth. The plan over the next 3 and 10 years is to ensure that each of the existing ventures gets to maturity quickly and returns to BW both a profit and the original capital investment. This will maintain the profitability of the ventures business area and provide capital for the next tranche of ventures.

We have modelled the financial impact of increasing our exposure to ventures over the 10 year period. By year 10 we expect the capital employed in ventures to represent up to 10% of our total asset base. This is still a relatively small proportion but the higher returns from ventures are planned to increase the overall return on equity invested in both property and ventures from circa 10% now to 14%. Over the three year plan period the total return on equity should increase to circa 12% for property and ventures.

Capital employed for property and ventures



3.2.3 Commercial commentary

Over the plan period, we do not have firm plans to create any further major joint ventures other than those noted in the table above. It is likely that new site specific property development

joint ventures will be formed with BW's adjoining landowners as a mechanism for regeneration but these will emerge as sites are worked up, land assembly undertaken and relationships developed with our neighbours. Any of the major development sites outlined in the Quarterly Property Report could be delivered by joint venture. The impact on the 3 year plan is unlikely to be material.

During 2005/06 we are also working up an Outline Business Case for a project to realise more capital for BW to invest elsewhere, whether in property, ventures or leisure. One option being considered is a joint venture with a private sector partner to invest in waterside property assets. No decision on this project has been made and accordingly the financial impact of it is excluded from this plan.

We have no other plans to hive off trading activities within BW into separate subsidiaries as we have done from Waterscape and Marinas. However, we are working up a project to capitalise upon sponsorship of BW assets which may manifest itself in some form of venture. This is at a very early stage of development but it could ultimately influence the way in which we package our assets and leisure offer.

The above table shows the combined financial impact on BW of subsidiaries and joint ventures. The major venture plans are individually summarised below although each has a separate approved business plan. The summaries below therefore concentrate on the financial impact of the venture plans on BW group.

A breakdown of the major ventures contribution is set out in the table below:

Contribution after depn by Venture

| | Q3 fcast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|------------------|-----------------------------|-------------------------|-------------------------|-------------------------|
| City Road | 0.0 | 0.0 | 0.7 | (0.1) |
| H2O Urban | 0.0 | 0.0 | 0.3 | 0.6 |
| Wood Wharf | (1.4) | 2.2 | (0.1) | (0.1) |
| Edinburgh Quay | (0.1) | 2.9 | (0.1) | 3.4 |
| WP5 | (0.2) | 0.1 | 0.4 | 0.3 |
| Isis | 1.4 | 1.5 | 0.5 | 0.5 |
| BWML | 0.0 | 0.2 | 0.5 | 0.8 |
| Waterscape | (1.2) | (0.2) | 0.1 | 0.3 |
| Watergrid | 0.0 | 0.0 | 0.0 | 0.0 |
| Gloucester Quays | 0.0 | (0.1) | 0.0 | 0.0 |
| Total | <u>(1.5)</u> | <u>6.6</u> | <u>2.3</u> | <u>5.7</u> |

The ventures are potentially quite volatile in terms of quantum and timing of dividends to BW. The ventures most likely to provide upside returns to BW are City Road, H2O Urban, Edinburgh Quay and Pub Partnership; but the three property development vehicles could experience delays in the timing of dividends to BW. The ventures most likely to show a downside risk are Edinburgh Quay, Isis, BWML and Waterscape. We hope that the diversity of ventures in this business area helps to mitigate this risk.

Capital invested in each of our major ventures is shown in the following table:

| Venture capital invested | 2004/05 Qu 3 Fcast | 2005/06 Plan | 2006/07 Plan | 2007/08 Plan |
|-----------------------------|-----------------------|-----------------|-----------------|-----------------|
| Waterscape | 0.0 | 0.0 | 0.0 | 0.0 |
| BWML | 2.2 | 0.5 | 0.5 | 0.0 |
| Edinburgh Quay | 1.0 | 4.0 | 1.5 | 0.0 |
| Firhill Quay | 0.0 | 1.0 | 0.0 | 0.0 |
| WP5 | 0.5 | 2.0 | 0.4 | 0.4 |
| Watergrid | 0.2 | 0.4 | 1.0 | 1.0 |
| isis | 2.3 | 7.0 | 8.0 | 5.0 |
| Wood Wharf | 0.0 | 1.5 | 1.5 | 1.5 |
| City Road Basin | 0.9 | 1.0 | 0.0 | 0.0 |
| Gloucester Quay | 0.0 | 8.3 | 0.0 | 0.0 |
| H2oUrban | 0.6 | 1.0 | 0.0 | 0.0 |
| Paddington Business Barges | 0.0 | 0.2 | 0.0 | 0.0 |
| Other (Stoke) | 0.0 | 0.3 | 0.3 | 0.1 |
| | 7.7 | 27.2 | 13.2 | 8.0 |
| Cumulative capital invested | | 28.1 | 39.2 | 43.2 |

Capital repayments from our ventures are planned to be £6.8m in 2005/06 (Edinburgh Quay phase 1); £2.1m in 2006/07 (City Road Basin) and £4m in 2007/08 (Edinburgh Quay phase 2).

3.2.4 Property ventures

3.2.4.1 isis

The isis business plan has been revised to reflect the significant progress made on the initial 10 sites, plus aspirations to develop a number of new sites to be acquired from BW. The level of equity now planned is greater than last year's plan as a result of increasing direct development activity.

A summary is shown below in terms of the cash effect on the BW group business.

| £m | 2004/05 Budget | 2004/05 F'cast | 2005/06 Budget | 2006/07 Plan | 2007/08 Plan |
|------------------------------|-------------------|-------------------|-------------------|-----------------|-----------------|
| Income | | | | | |
| ISIS dividend receivable | 1.0 | 1.5 | 1.5 | 0.5 | 0.5 |
| Capital | | | | | |
| Property sales into Isis | 14.0 | 1.0 | 12.0 | 7.0 | 2.0 |
| - existing | | | | | |
| - new options | - | - | - | - | 20.0 |
| Equity into ISIS | 4.4 | 2.3 | 7.0 | 8.0 | 5.0 |
| Equity repaid from ISIS | - | - | - | - | - |
| Net capital cash flow | 9.6 | -1.3 | 5.0 | -1.0 | 17.0 |

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 along with our share of profits payable to us as dividends when the property is finally sold. 2006 is the year in which isis requires the greatest investment in any one year – BW's share is £16m. Under the agreement with our partners BW can elect to have up to £7.5m of its equity funding met by a mezzanine loan, thereby reducing our equity investment to just over £8m. BW has advised isis that it is likely to require the mezzanine facility in 2006. Based on the current business plan isis equity requirements peak at £73m in 2007 funded by total BW equity of £29m; partner equity of £29m and mezzanine funding of £15m.

The key deliverables for isis in 2005 are:

- Brentford. Secure planning and debt funding and draw down BW land to enable construction to start at the end of 2005
- Islington Wharf, Manchester. Secure planning and award construction contract by September 2005
- Glasgow. Submit planning applications early 2005 and secure planning by end of year
- Leeds Canal Basin. Submit planning application by March 2005 and award construction contract by December 2005
- Nottingham. Create joint venture with English Partnerships by June 2005
- Leeds Yarn Street. Submit planning application by September 2005
- Thurrock. Complete sale of part by March 2005 and second part by December 2005
- Ilford. Complete sale to Health and Fitness operator by September 2005
- Techno park Birmingham. Sell landholding to AWM by March 2005

By mid 2005 isis intends to enter an option agreement with BW on sites at Icknield Port, Birmingham; Hale Wharf, Tottenham; Northwich; Cotswolds and Milton Keynes. The land payments shown in the table above for these new options are subject to negotiation between BW and isis.

3.2.4.2 Watergrid

During late 2004 the Watergrid Board asked the Chief Executive to stand down as the management's strategy was not delivering the targets set. After a review of the underlying viability of the business, Watergrid will operate with a much reduced overhead (four staff plus a part-time Chief Executive), whose objective is to identify realistic sales prospects in the industrial sector. Assuming these industrial prospects can be converted into profitable contracts and signed during 2005, the shareholders will continue to support the company and consider further expansion to meet the opportunities.

Consistent with the original plan there are no distributable profits to BW over this three year plan period. John Taylor has now been seconded full time to Watergrid and his salary costs are recharged to the venture

We plan to invest following levels of equity over the plan period:

| £m | 2004/05 Budget | 2004/05 F'cast | 2005/06 Budget | 2006/07 Plan | 2007/08 Plan |
|-----------------------|-------------------|-------------------|-------------------|-----------------|-----------------|
| Capital | | | | | |
| Equity into watergrid | 1.6 | 0.2 | 0.4 | 1.0 | 1.0 |

3.2.4.3 Wood Wharf, Docklands

In January 2005, BW selected the partnership of Canary Wharf and Ballymore for this major development site in London. The preferred structure assumes that the land to be acquired by the partnership from BW is satisfied by a combination of capital and geared lease rental payment. 'Readiness for development' criteria are expected to be fulfilled by 2009/10 when the capital value is paid to BW for land. In the plan period we expect to receive a net entry premium of £2.3m in 2005/06 and a ground rent of £2m per annum from 2005/06 onwards.

| £m | 2004/05 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|----------------------------------|---------|---------|---------|---------|---------|
| | Budget | F'cast | Budget | Plan | Plan |
| Income | | | | | |
| Rent (property business area) | - | - | 2.0 | 2.0 | 2.0 |
| Adviser fees for project work up | -1.0 | -1.3 | | | |
| Entry premium | 1.0 | - | 2.3 | - | - |
| Capital | | | | | |
| Equity into Wood Wharf | - | - | 1.5 | 1.5 | 1.5 |

3.2.4.4 Gloucester Quays

In November 2004 the Gloucester Quays scheme gained planning approval for a 60 acre mixed use scheme. During early 2005 the specific planning conditions will be evaluated, grant funding secured from English Partnerships and approval sought from the BW Board and Defra to set up the joint venture with Peel. If the venture is created in early 2005/06 work could begin on site later in 2005.

[Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000] No distributions are expected from Gloucester Quays in the plan period; profits and distribution are only expected when the factory outlet centre is completed and fully let (2010), at which point annual distributions will be paid from the excess between rental income and interest payments on the debt used to finance the construction. In 2005/06 we have assumed £75k of fees to create the partnership documentation.

3.2.4.5 Edinburgh Quay

Practical completion was achieved on 1 December 2004 and the main office occupiers, Tods Murray, have begun their [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000] office fit out on their 41,000 sq ft letting. The sale of their previous building to Sundial will complete in February 2005. Legal terms are being progressed with Knight Frank and GVA Grimley to take office space and, when these complete, there will remain 27,000 sq ft of space to let. Ask and Festival Inns have opened for trade, while S&N has viewed a vacant unit on behalf of WP5. Further marketing of the office and leisure units continues. A sale of the completed building is planned for December 2005, once a few more lettings have been secured. BW is reviewing its options to acquire the building from the JV as an investment.

BW has now invested its maximum equity of £6.8m into the scheme and the £20m bank facility is fully drawn, so any further working capital will be met from the contracted sale of a development site. A scheme for Phase 2 is being worked up, but no commitment will be recommended until further progress is made on Phase 1.

The plan assumes that BW will receive a dividend of £2.9m in 2005/06 from the sale of the let investment and will have its loan of £6.8m repaid to commercial capital. Capital

investment of £4m in 2005/06 is expected to fund the phase 2 development at Edinburgh Quay plus a further £1.5m in 2006/07.

| £m | 2004/05 Budget | 2004/05 F'cast | 2005/06 Budget | 2006/07 Plan | 2007/08 Plan |
|----------------------------|-------------------|-------------------|-------------------|-----------------|-----------------|
| Income | | | | | |
| Dividends | - | - | 2.9 | - | 3.5 |
| Capital | | | | | |
| Equity into Edinburgh Quay | 1.0 | 1.0 | 4.0 | 1.5 | - |
| Equity repaid | - | - | 6.8 | - | - |

3.2.4.6 City Road Basin

This venture was established in 2001 to enable a comprehensive redevelopment of the canal at City Road, Islington. A masterplan was adopted for the area in May 2004 comprising principally residential units plus retail, restaurant, boat club and open space. The scheme is progressing in phases:

- Phase 1. Sold to a residential developer for cash of £6.5m.
- 261 City Road. Fidelity are looking for a planning permission for residential build in January 2005.
- Access Storage site. City Road Basin has ventured with Groveworld to acquire this site and obtain planning permission. This is likely to be traded to a residential developer releasing a payment to BW for its land of £3m.
- Public Open space. Planning to be submitted early 2005.

Funding of £1m is likely in 2005/06 for working capital and to fund the land payment to BW on the Access storage site. This has already been approved by the Board (maximum commitment of £2.3m versus actual spend to date of £1.0m). Profits are expected in 2006/07 generating a distribution to BW of £0.7m.

3.2.4.7 H₂O Urban

Company set up to develop and regenerate small canal side land in London. Preference for off market opportunities, reducing risk by partnerships, conditional contracts and options. Board approval has been gained for 4 sites requiring equity of £1.3m. [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000] The four approved schemes are:

- Actons Lock, Hackney. Planning s106 to be agreed early 2005 and on site by June 2005 with construction over one year.
- Burdett Rd, Limehouse. Detailed planning submitted November 2004 for 107 residential units.
- Chisendale St, Hackney. Progress slow.

- Lee House, Enfield. Not being progressed.

Two other schemes will be progressed subject to Board approval :

- Branch Place, Hackney. Acquisition of site and planning to be submitted mid 2005.
- Mill Lane, Hertford. Outline planning submitted for 18 residential units.

Funding of £1m from BW is required in 2005/06 for the 4 sites plus £0.3m for the two new schemes if approved. From 2007 the company is planned to be self financing from retained profits. Dividends of £0.3m planned in 2006/07 and £0.6m in 2007/08.

3.2.4.8 Timber Basin

This is a residential scheme at Firhill Iron Works, Glasgow with 156 units planned. Contamination issues have now been resolved and expect to have a planning application approved by July 2005. The development appraisal is being worked on to improve the profitability of the scheme.

The joint venture has been created but no equity invested to date. Work up costs associated with the planning application have been met 50:50 by BW and its partner, Quality Street. Once the project is demonstrated as viable it is envisaged that up to £1.6m of equity from BW will be required to part fund the scheme. Any distributions of profits will be just outside the 3 year plan period. The venture will pay to BW £375k for land drawn down for the development in 2005/06.

3.2.4.9 Festival Waters, Stoke

Venture with St Modwen to redevelop the Etruria Valley area of Stoke by assembling land held by BW and St Modwen and third parties. Over the three year plan the venture will acquire sites worth £1m plus funded by a maximum equity commitment from BW of £0.6m. Once land has been assembled a comprehensive outline planning application will be submitted which will increase land values in the area. Individual parcels can then be traded at a profit.

3.2.4.10 Paddington Basin Business Barges

Three barges are in situ at the basin with tenants identified for all three. Leases are planned to be concluded in early 2005. Once let a further 3 barges will be procured (at a cost of £150k each), funded by either debt or equity. Debt funding is proving challenging given the unique nature of the bank's security. If funded by equity BW's contribution will be approximately £125k. Modest profits are expected in 2005 but no distributions due to brought forward losses which must be cleared first.

3.2.4.11 Other investments

BW has a 3% investment in Easynet, a quoted company which owns a telecommunication fibre cable, part of which is located in the BW towpath. In December 2004 this investment was valued at £2.1m. It is assumed that we retain this holding during the plan period but this assumption will be regularly reviewed.

3.2.5 Leisure ventures

3.2.5.1 British Waterways Marinas Ltd (BWML)

| | Actual | Budget | Forecast | Plan | Plan | Plan |
|--|--------------|------------|------------|------------|------------|------------|
| | 2003/04 | 2004/05 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
| Income | 3.8 | 6.2 | 5.4 | 8.7 | 11.3 | 13.6 |
| Expenditure | | | | | | |
| Controllable costs | 3.7 | 6.0 | 5.2 | 8.4 | 10.6 | 12.7 |
| Contribution before depreciation | 0.1 | 0.2 | 0.2 | 0.3 | 0.7 | 0.9 |
| Depreciation | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Contribution after depreciation | (0.0) | 0.1 | 0.1 | 0.2 | 0.5 | 0.8 |
| Profit / (loss) on disposal of non property assets | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting Profit / (loss) | (0.0) | 0.1 | 0.1 | 0.2 | 0.5 | 0.8 |
| Less 6% cost of capital charge | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Economic value created / (consumed) | (0.0) | 0.1 | 0.1 | 0.2 | 0.5 | 0.8 |

3.2.5.1.1 Financial commentary

BWML expects to meet its first year's trading targets (£0.1m profit after rent, rates and services charges). During 2005/06 BWML will continue to review new marina sites to transfer from BW plus new marina acquisitions and developments.

BW earns income from BWML through two mechanisms: dividends and rents/service charges. The combination of these is the indicator of BWML's overall contribution to BW, though these will be accounted for in separate business areas.

| Total Returns to BW | | | | | |
|---------------------------|------------|------------|------------|------------|------------|
| £m | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
| Rent and Service income | 0.1 | 0.5 | 0.7 | 1.1 | 1.6 |
| BWML net profit | -0.1 | 0.1 | 0.2 | 0.5 | 0.7 |
| Total for BW Group | 0.0 | 0.6 | 0.9 | 1.6 | 2.3 |

BWML's own growth is projected to arrive from:

- Revenue growth from additional moorings, increased occupancy and pricing.
- Addition of other income stream such as brokerage and chandlery
- Further acquisition/developments of new marinas.

Controllable costs will rise significantly as the business gears up to focus its attentions on excellent customer service and the generation of extra revenues. In 2007/8 the BWML business will begin to reap significant rewards from these gear up costs and it is expected to return a profit before tax of £0.9m, and to make the first return to BW on its investment via a dividend of £0.6m.

3.2.5.1.2 Commercial commentary

The initial focus will be to ensure the efficient operation of the initial marinas and to transfer all other marinas owned by BW. Poplar and Limehouse marinas in London are due to transfer in April 2005 and a further two during 2005/06, although we may be able to further increase the number of sites transferred. The business will then be expanded through a combination of acquisitions and new developments as opportunities arise or are created.

3.2.5.2 Waterscape.com

| | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-------------------|-------------------|---------------------|-----------------|-----------------|-----------------|
| Income | 0.2 | 0.7 | 0.4 | 0.8 | 1.1 | 1.4 |
| Expenditure | | | | | | |
| Controllable costs | 2.4 | 1.9 | 1.7 | 1.0 | 1.1 | 1.1 |
| Contribution before depreciation | (2.1) | (1.2) | (1.3) | (0.2) | 0.0 | 0.3 |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contribution after depreciation | (2.1) | (1.2) | (1.3) | (0.2) | 0.0 | 0.3 |
| Profit / (loss) on disposal of non property assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting Profit / (loss) | (2.1) | (1.2) | (1.3) | (0.2) | 0.0 | 0.3 |
| Less 6% cost of capital charge | 0.0 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 |
| Economic value created / (consumed) | (2.1) | (1.4) | (1.5) | (0.2) | 0.0 | 0.3 |

3.2.5.2.1 Financial commentary

Waterscape has been trading since July 2003. It achieved its 2003/04 financial targets but failed to reach its 2004/05 plan revenue as a result of:

- Aggressive plan assumptions
- Lower than expected revenues from online advertising due to market changes
- Reduced synergy with BW due to restructuring
- Advertising sales problems because of outstanding issues with the waterways industry.

A revised plan has been agreed, which is reflected in the figures above. Waterscape is to bring its technology in-house, thus improving its product and sales potential. At the same time, work is in hand to improve integration with BW. BW is also tackling relationships with the waterway industry as a high priority.

3.2.5.3 Waterside Pub Partnership (WP5)

The Waterside Pub Partnership is expected to be formed in February 2005 as a 50:50 LLP between BW and Scottish and Newcastle. The partnership will acquire 30 existing assets from BW and have options to develop 22 BW landholdings. The business model is a tenanted operation where WP5 receives rent from tenants and a commission on beer sales. [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000] BW's revenue from the partnership will arrive as a combination of profit distributions, land payments and reimbursement of staff time seconded to the business. Funding will be provided through a combination of debt and equity.

| £m | 2004/05 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|----------------------------------|---------|---------|---------|---------|---------|
| | Budget | F'cast | Budget | Plan | Plan |
| Income | | | | | |
| Dividend receivable | - | - | 0.1 | 0.4 | 0.3 |
| Adviser fees for project work up | -0.6 | -0.8 | | | |
| Entry premium | 0.5 | 0.5 | - | - | - |
| Capital | | | | | |
| Property sales into WP5 | - | - | 5.0 | 1.0 | 1.0 |
| Equity into WP5 | - | 0.5 | 2.0 | 0.4 | 0.4 |
| Net capital cash flow | - | -0.5 | 3.0 | 0.6 | 0.6 |

3.2.5.4 Waterwise

This venture is not a major contributor but over the plan period the company expects to market the safety training facilities to BW staff.

3.2.6 Ventures milestones

| Ventures milestones | Year |
|---------------------------------------|------------|
| BWML | |
| • Next tranche of marinas transferred | April 2005 |
| Pub Partnership | |
| • Development of 15 new pubs | March 2006 |
| Paddington Barges | |
| • Three new barges to basin | June 2006 |
| • Planning consent for 6 barges | Sept 2006 |
| H₂O Urban | |
| • On site at Actons Lock | Sept 2005 |
| • Obtain planning for Burdett Road | March 2006 |
| Gloucester Quays | |
| • Secure funding from EP | June 2005 |
| • Partnership formed | July 2005 |
| Edinburgh Quay | |
| • Sale of investment | Dec 2005 |
| • Approval to invest in phase 2 | Sept 2005 |
| Timber Basin | |
| • Planning consent granted | July 2005 |
| • Sale of land to BW | Dec 2005 |

| | |
|---|------------|
| City Road | |
| • Planning consent for Access Storage site | Sept 2005 |
| • Distribution of profits | March 2007 |
| Watergrid | |
| • Confirm commercial viability of industrial water supply | June 2005 |
| Wood Wharf | |
| • Partnership formed | April 2005 |
| • Site 'readiness for development' criteria satisfied | March 2009 |
| Waterwise | |
| • Market internally to BW staff | June 2005 |
| isis | |
| • Award construction contracts at Brentford, Manchester and Leeds Canal Basin | Dec 2005 |
| • Complete land sales at Thurrock, Ilford and Technopark | Sept 2005 |
| • Enter into options with BW at Icknield Port, Hale Wharf, Northwich, Cotswolds and Milton Keynes | June 2005 |
| Waterscape | |
| • Complete review for operating waterscape in the future | April 2005 |
| • Breakeven in 2005/06 | March 2006 |
| Stoke | |
| • Create joint venture with St Modwen | April 2005 |
| • Land assembly for redevelopment | March 2007 |

3.3 Leisure

3.3.1 Key leisure priorities

| |
|---|
| Leisure priorities |
| • Implement moorings strategy to achieve planned income growth. |
| • Facilitate growth in boat numbers |
| • Continue to target licence evasion |
| • Develop online facilities |
| • Develop 'Prospectus' for marina development |
| • Develop sponsorship arrangements |

| | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-------------------|-------------------|---------------------|-----------------|-----------------|-----------------|
| Income | 21.1 | 18.8 | 18.1 | 19.5 | 20.4 | 21.2 |
| Expenditure | | | | | | |
| Controllable costs | 9.4 | 7.6 | 7.5 | 7.9 | 8.1 | 8.2 |
| Contribution before depreciation | 11.7 | 11.2 | 10.6 | 11.6 | 12.3 | 13.0 |
| Depreciation | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 |
| Contribution after depreciation | 11.3 | 10.9 | 10.3 | 11.3 | 12.0 | 12.7 |
| Profit / (loss) on disposal of non property assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting Profit / (loss) | 11.3 | 10.9 | 10.3 | 11.3 | 12.0 | 12.7 |
| Less 6% cost of capital charge | 1.1 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 |
| Economic value created / (consumed) | 10.2 | 10.3 | 9.7 | 10.7 | 11.4 | 12.1 |

3.3.2 Financial commentary

Income grows at 8% during 2005/06 followed by 5% in 2006/07 then 4% in 2007/08. The larger income growth in first year of the plan relates to improving retail sales from the Falkirk wheel attraction (£0.4m) and further development of a small number of retail offerings around the network (£0.3m). For 2005/06, the major income elements are craft licences 55%, moorings 22% and retail 16%.

The controllable cost to income ratio improves from 41.4 % in 2004/05 to 38.6% in 2007/8, with EVC growing by 10% in 2005/06 followed by 7% and 6% in the following two years.

Two main drivers behind in the larger first year EVC improvement £1m (compared with £0.7m in two latter years) are lower central costs (professional fees £0.2m) and improvement in the Falkirk Wheel attraction (£0.2m). All other changes in EVC are in line with organic growth and cost control within the waterways. Also, there is continued focus on craft licence evasion control in the boats and boating business.

3.3.3 National leisure businesses

3.3.3.1 Boats and boating

| | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-------------------|-------------------|---------------------|-----------------|-----------------|-----------------|
| Income | 13.6 | 15.0 | 14.7 | 15.4 | 16.3 | 17.2 |
| Expenditure | | | | | | |
| Controllable costs | 1.5 | 1.8 | 1.8 | 1.7 | 1.7 | 1.8 |
| Contribution before depreciation | 12.0 | 13.2 | 13.0 | 13.7 | 14.6 | 15.4 |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Contribution after depreciation | 12.0 | 13.2 | 12.9 | 13.6 | 14.5 | 15.3 |
| Profit / (loss) on disposal of non property assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting Profit / (loss) | 12.0 | 13.2 | 12.9 | 13.6 | 14.5 | 15.3 |
| Less 6% cost of capital charge | 0.0 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 |
| Economic value created / (consumed) | 12.0 | 13.0 | 12.7 | 13.4 | 14.2 | 15.0 |

3.3.3.1.1 Financial commentary

Income grows at a steady rate of between 5% and 6% each year from 2005/06 to 2007/8, craft licence income from £10.5m to £12.0m and mooring income from £4.1m to £4.8m.

The controllable cost to income ratio improves from 12.1% 2004/05 to 10.7% in 2007/08 reflecting a relatively steady cost base.

3.3.3.1.2 Commercial commentary

Licences

The plan is based on a much more robust and realistic assessment than last year of data on boat numbers by each business unit

This plan assumes licence income will rise by an average of 3% per annum with the exact increase being determined by industry costs indices (rather than RPI) and discount for efficiency improvements.

We have begun campaigns to:

- Reduce licence evasion
- Implement our new policy on continuous cruising.

These will continue in 2005/06 to 2007/08.

| Licensing Milestones | Year |
|---|---|
| • Evasion remains 3% or below | Each quarter of each year to March 2008 |
| • Online licence renewals start via Waterscape | Sept 2005 |
| • First prosecutions complete on continuous cruising | Dec 2005 |
| • Average annual boat growth rate of 2% achieved | March 2006 |
| • New integrated software available to patrol staff | March 2006 |
| • 20% of licences purchased online | March 2007 |
| • 40% of licences purchased online | March 2008 |
| • Average annual growth of in boat numbers of 3% achieved | March 2008 |

Moorings

Investment in new moorings will be required by both the private sector and BW Group in order to meet the increase in demand. Having completed basic in house assessments of moorings supply and demand for each waterway unit, in 2005/06, we will identify sites for mooring development and in accordance with the Marinas Protocol all opportunities for new offline moorings that are facilitated by BW will be put out to tender – in which BW Marinas Ltd may participate if it wishes.

During 2005, we will also assess the effects of new studies of demand for water and data on lock usage on the growth projections we are making to inform our future marketing strategy.

Furthermore we shall look to encourage private sector investment by assisting in planning negotiations, technical expertise and, if appropriate, funding (but always receiving a commercial return).

Our strategy is to encourage existing online moorers in congested locations to move to new marinas. This will improve the waterway experience for cruisers and also provide more secure mooring facilities. Nevertheless some growth in directly managed online moorings will probably be required in response to growing demand on those parts of the network where there is both available online capacity that can be utilised without appreciable harm to the waterway experience and a lack of offline facilities.

We will produce a 'prospectus' intended to attract private sector investment into the offline moorings business on inland waterways. This is necessary to meet demand and achieve our income targets.

| Moorings Milestones | Year |
|--|--------------------|
| • Lobbying of planners carried out | June 2005 |
| • 'Prospectus' published | Sept 2005 |
| • Online moorings income of £4.2m | April 2006 |
| • Online moorings income of £4.2m | April 2006 |
| • Revised business plans for BW online moorings business | Dec 2006 |
| • Relationship with BMF and its members on new footing | April 2006 onwards |
| • 10 significant new marina starts | March 2008 |

3.3.3.2 Other opportunities

We are currently exploring the potential benefits to BW from sponsorship activity across our waterway network. Our exposure to sponsorship has, to date, been limited, although we have had some success, eg In Bru sponsorship of the playground at the Falkirk Wheel site. Such proposals will be undertaken in conformance with our underlying values, particularly in terms of heritage and environment. We also recognise the commercial and contractual issues relating to any sponsorship arrangement and the associated obligations to deliver an agreed package of sponsor benefits over a specified period of time.

We believe that there is great variety of potential sponsorship opportunities, which could be applied to local activities, high profile locations, groups of assets or to entire waterways, whether existing or yet to be constructed. Each activity, site, asset or waterway has the potential to deliver benefits to sponsors and generate sponsorship income for BW as well as other benefits, such as increased market visibility and greater public reinforcement of our values.

The nature of the non-financial benefits, how much they are worth and delivery of an effective sponsorship programme are critical considerations. We are currently considering some key issues:

- Whether a package of activities, sites or waterways could deliver benefits that would attract a major sponsor or sponsors
- How BW could work in partnership with a sponsor to achieve strategic sponsorship objectives

- The level of commitment and resource that BW would need to manage such a relationship
- How much a tailored package of BW assets and activities could be worth to a sponsor and over what period of time and at what cost to BW
- What sort of national brand(s) would fit with BW, what would be the most appropriate sponsorship sales process and how significant relationships might best be developed.

A small BW sponsorship project team has been set up to address these issues and a highly experienced sponsorship consultant has been appointed to provide advice and assistance.

| Sponsorship Milestones | Year |
|---|-----------|
| • Preparation of a sponsorship plan for approval | June 2005 |
| • Initial sponsorship secured (assuming plan is approved) | Jan 2006 |
| • Review of sponsorship arrangements | Ongoing |

3.3.4 Local leisure businesses

Local Leisure businesses are those which will not be principally directed and resourced on a national basis. It is recognised that the facilities these businesses can offer are an important part of our customer experience and have a strong line to customer satisfaction.

Investment in these will be available primarily through 'de minimis' commercial capital and specific priority funding ('Make a Difference' Projects). Local decisions on pursuing local leisure businesses will be made on a number of criteria, principally:

- The value of such a business to achieving local community involvement, visitor growth and customer satisfaction
- Not EVC destructive, and preferably EVC enhancing.

Local initiative and entrepreneurialism within this framework will be the key to developing these businesses. Sufficient success can be the foundation for these to graduate to become national leisure businesses, with the national resourcing and investment that investment that this brings. Initiatives that have already been pursued as national leisure initiatives include the formation of BWML from our locally initiated marinas and WP5 from our locally established estate of tenanted pubs.

3.3.4.1 Visitor attractions

| | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-------------------|-------------------|---------------------|-----------------|-----------------|-----------------|
| Income | 2.1 | 2.4 | 1.9 | 2.4 | 2.4 | 2.5 |
| Cost of Sales | 0.5 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| Gross Profit | 1.6 | 1.8 | 1.5 | 1.8 | 1.9 | 2.0 |
| Controllable costs | 1.8 | 1.6 | 1.4 | 1.6 | 1.6 | 1.7 |
| Contribution before depreciation | (0.3) | 0.1 | 0.1 | 0.2 | 0.3 | 0.2 |
| Depreciation | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Contribution after depreciation | (0.5) | (0.0) | (0.1) | 0.0 | 0.1 | 0.1 |
| Less 6% cost of capital charge | 0.0 | 0.2 | 0.3 | 0.3 | 0.3 | 0.2 |
| Economic value created / (consumed) | (0.5) | (0.3) | (0.4) | (0.2) | (0.2) | (0.2) |

3.3.4.1.1 Financial commentary

The EVC improvement for 2005/06 is due to an ambitious plan to boost Falkirk by rectifying the poor performance during 2004/05. This will be achieved primarily through rescheduling lunchtime bottlenecks, improving the in-house booking process and changing the pricing structure. Combined with the marketing strategy, the resulting EVC improvement is £0.2m.

Financial performance of both Standedge and Anderton change little over the plan period.

3.3.4.1.2 Commercial commentary

We will continue to manage our three established visitor attractions, at Falkirk, Standedge and Anderton. At Falkirk, we envisage continuing investment in line with a masterplan for the site and the area. At Anderton and Standedge, we will pursue operating improvements before consideration of further investment.

3.3.4.2 Visitor destinations

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

We have widened our view of what could comprise the attraction element of a destination. For example, it could be:

- an existing flight of locks (eg Devizes),
- something we have specifically created (eg Falkirk Wheel),
- an urban centre (eg Camden lock; Castle Wharf, Nottingham),
- a major isis mixed use development
- a large marina or pub site, or
- a reservoir site.

It is likely our most important destinations will be based on existing features on our network but where we are restoring or developing new waterspace there will be the opportunity to consider creating a new attraction, where it is commercially viable so to do. Some sites will need very little by way of additional attractions because of their location and / or because they already attract significant visitor footfall.

The range of facilities and services are planned to include offers such as car parks, retail, food and beverages, boat trips, guided walks and other commercially viable propositions. These may be managed and delivered by BW (eg Hatton café) in partnership (eg Pub Partnership) or by a third party paying rent (eg a trip boat). This would be determined within the criteria for local and national leisure businesses and ventures, as well as the availability of investment capital.

Our widened view of what has the potential to become a visitor destination site has led to a greater challenge for our waterway units to identify these sites, prioritise them and then to combine our capital investment and operational expenditure in each of our business areas, in order to focus our investment on these priority sites. The 'pool' from which our priority sites will be drawn includes:

- Our earlier listing of 25 priority sites
- Our BWML marina sites, currently 10, but anticipated to grow to 20 with ten years
- The initial portfolio of 54 WP5 sites
- The 11 initial isis sites, planned to grow over the ten year period
- Our other major property venture sites such as Wood Wharf, Edinburgh Quay, City Road Basin
- Major urban centres such as Camden, Paddington, Clarence Dock, Castle Wharf, Liverpool Docks
- Major restoration areas such as the Cotswold Canal.

In determining where and how much we invest in visitor sites our decisions will be based upon:

- The extent to which the visitor experience will be enhanced
- The net returns of individual sites compared to other investment opportunities
- Opportunities for third party funds for the investment in and restoration of sites of particular interest
- Achieving our wider social, economic and educational objectives.

Investment into visitor destinations is included in other business areas eg property, leisure, ventures, restoration and core waterway expenditure. Our strategy is to focus and combine the investments in these business areas into the priority destination sites.

Income from visitor destinations is also incorporated within the other business areas. For example income from Pub Partnership is included under ventures. Once the specific activities at each visitor destination have been defined, it will be possible to measure the performance of each visitor destination.

| Visitor Destination Milestones | Year |
|--|-----------|
| • Caen Hill pilot project complete | Dec 2005 |
| • Roll out other destinations based on pilot | Sept 2006 |

3.4 Restoration

3.4.1 Restoration priorities

Restoration priorities

- Align restoration priorities with property / regeneration / ventures priorities (explore land banking).
- Achieve funding for priority schemes identified in 2025 document
- Introduce a risk based approach to ensure sustainability of restoration schemes
- Abandon proposals with no prospect of meeting funding criteria.

3.4.2 Financial table

| | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-------------------|-------------------|---------------------|-----------------|-----------------|-----------------|
| Income | 14.4 | 7.8 | 5.6 | 18.4 | 23.1 | 17.2 |
| Expenditure | | | | | | |
| Controllable costs | 19.0 | 8.6 | 6.3 | 19.1 | 23.7 | 17.9 |
| Contribution before depreciation | (4.6) | (0.8) | (0.8) | (0.7) | (0.6) | (0.6) |
| Depreciation | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Contribution after depreciation | (4.7) | (0.8) | (0.8) | (0.8) | (0.6) | (0.6) |
| Profit / (loss) on disposal of non property assets | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting Profit / (loss) | (4.7) | (0.8) | (0.8) | (0.8) | (0.6) | (0.6) |
| Less 6% cost of capital charge | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Economic value created / (consumed) | (4.7) | (0.9) | (0.9) | (0.9) | (0.7) | (0.6) |

3.4.3 Financial commentary

The growth in income reflects the latest forecasts from project managers in respect of expected project start dates, which are subject to funding agreements.

Income rises significantly over the plan years due to the expected commencement of a number of projects: Liverpool Canal Link £17.1m, Cotswold Canal £14.8m, Bow Back Rivers £9.2m and Droitwich Canal £8m.

3.4.4 Key areas of risk

Apart from Dundas on the Glasgow Arm of the Forth & Clyde, none of the projects have a full funding package in place. All involve complex partnerships and withdrawal by any one partner could seriously delay or jeopardise an entire project.

Particular risks are:

- SWRDA not supporting the Cotswold Canal
- London failing in its bid to host the 2012 Olympics leading to a much longer timescale for restoration of Bow Back Rivers
- Withdrawal of support from any one of the key partners on the Liverpool Link

- Conservation Plan for Montgomery Canal not being supported by Nature Conservation Agencies.

In addition, BW will be taking on the construction risk for all of these projects. It is therefore important to ensure that there are robust expenditure estimates for all projects, with adequate risk contingency funds identified to cover any liabilities that could fall on BW. Strong project management and financial control is imperative.

3.4.5 Project analysis

Restoration Income (£m)

| | Total project value | 2005/06 | 2006/07 | 2007/08 |
|---------------------------------|---------------------|-------------|-------------|-------------|
| Liverpool Canal Link | 17.1 | 6.4 | 7.7 | 3.0 |
| Manchester, Bolton & Bury canal | 43.2 | 1.8 | 2.5 | 0.3 |
| Northern Reaches | 59.5 | 0.3 | 0.3 | 0.1 |
| Montgomery Canal | 5.5 | 0.1 | 0.5 | 1.6 |
| Bow Back Rivers | 28.5 | 3.1 | 3.0 | 3.1 |
| Droitwich Canal | 11.2 | 2.8 | 3.7 | 1.5 |
| Cotswolds Canal | 25.4 | 0.9 | 5.3 | 5.3 |
| Port Dundas | 1.8 | 2.0 | 0.0 | 0.0 |
| Other Projects | 0.3 | 0.3 | 0.2 | 0.3 |
| Total | 192.5 | 17.7 | 23.3 | 15.1 |

3.4.6 Restoration milestones

| Restoration milestones | Year |
|---|------------|
| Liverpool Link | |
| • Secure final Estates and Funding Agreements | Sept 2005 |
| • Advance Works | Dec 2005 |
| • Start Construction of Link | Jan 2006 |
| • Complete Construction | Dec 2007 |
| Manchester, Bolton & Bury | |
| • Commence Construction Phase I (Middlewood) | Dec 2005 |
| • Complete Construction Phase I | March 2006 |
| Northern Reaches | |
| • Commence feasibility for Northern Reaches (Phase 1), Kendal | June 2005 |
| • Complete Study and commence Development Master Plan | March 2006 |
| Montgomery Canal | |
| • Publish Conservation Management Strategy | June 2005 |
| • Land Assembly Target Sites identified | Dec 2005 |
| • Complete Study of Channel Design & Hydraulics Research | Dec 2005 |
| • Complete 500m Channel Construction – Llanymynech | March 2006 |

| | |
|--|--------------------|
| <ul style="list-style-type: none"> Secure Funding for main Restoration | March 2006 |
| Bow Back Rivers | |
| <ul style="list-style-type: none"> Review Restoration Project following International Olympic Committee decision (6th July 2005) | Sept 2005 |
| NB: The following milestones assume IOC decision is positive. If not, the milestones remain as stated, but with a longer timeframe | |
| <ul style="list-style-type: none"> Formalise strategy | Sept 2005 |
| <ul style="list-style-type: none"> Agree Land Strategy with Government Agencies | Dec 2005 |
| <ul style="list-style-type: none"> Agree Construction Plan | March 2006 |
| <ul style="list-style-type: none"> Construction | April 2006 onwards |
| Droitwich | |
| <ul style="list-style-type: none"> Planning Application Submitted | June 2005 |
| <ul style="list-style-type: none"> First Major Contract Let | Dec 2005 |
| <ul style="list-style-type: none"> A449 West Crossing Completed | March 2006 |
| <ul style="list-style-type: none"> All Major Contracts Let | June 2007 |
| Cotswolds | |
| <ul style="list-style-type: none"> SWRDA Funding Confirmed | June 2005 |
| <ul style="list-style-type: none"> HLF Stage 2 Application | June 2005 |
| <ul style="list-style-type: none"> Master-planning Completed | Dec 2005 |
| <ul style="list-style-type: none"> HLF Stage 2 Decision | Dec 2005 |
| <ul style="list-style-type: none"> HLF Contract Signed | Jan 2006 |
| <ul style="list-style-type: none"> First Contract Complete | March 2007 |
| <ul style="list-style-type: none"> All Major Contracts Let | June 2007 |
| Forth & Clyde Canal | |
| <ul style="list-style-type: none"> Completion of Port Dundas | March 2006 |
| Monmouthshire & Brecon Canal | |
| <ul style="list-style-type: none"> Open Discussion with Local Authorities re. Ongoing | Sept 2005 |
| <ul style="list-style-type: none"> Maintenance of Restored Lengths | |
| <ul style="list-style-type: none"> Review ongoing Membership of Restoration Partnership | Jan 2005 |

3.5 Core Waterway

Core Waterway priorities are shown separately below for income and expenditure.

| | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-------------------|-------------------|---------------------|-----------------|-----------------|-----------------|
| Income | 41.4 | 42.9 | 44.3 | 42.5 | 42.5 | 39.9 |
| Expenditure | | | | | | |
| Controllable costs | 135.4 | 105.6 | 108.7 | 111.0 | 117.5 | 116.1 |
| Contribution before depreciation | (94.0) | (62.7) | (64.4) | (68.5) | (75.0) | (76.2) |
| Depreciation | 2.0 | 2.7 | 2.6 | 2.7 | 2.7 | 2.7 |
| Contribution after depreciation | (96.0) | (65.4) | (67.0) | (71.2) | (77.7) | (78.9) |
| Profit / (loss) on disposal of non property assets | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 |
| Accounting Profit / (loss) | (96.0) | (65.4) | (67.0) | (71.1) | (77.6) | (78.9) |
| Less 6% cost of capital charge | 1.5 | 1.9 | 1.6 | 1.8 | 1.8 | 1.7 |
| Economic value created / (consumed) | (97.5) | (67.3) | (68.6) | (72.9) | (79.4) | (80.7) |

3.5.1 Financial commentary

3.5.1.1 Core waterway income

Core waterway income reduces by £0.8m (1.8%) in year 1, primarily due to the net effect of a reduction in third party funded regeneration activity and non-statutory works, £4.4m, and an increase in backdated utilities rents of £2.5m, maintenance agreements £0.9m and water sales income £0.1m.

The key movements in future years relate to the cessation of backdated utility rents once negotiations are concluded on 2005/06 and changes in the level of third party funded activity. The latter has little or no effect on the net contribution. Movements in the key sources of core income over the plan period are shown in the table below.

| Income sources | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|-----------------------------|-----------------------------|-------------------------|-------------------------|-------------------------|
| Utilities | 6.5 | 9.0 | 5.5 | 5.5 |
| Property rents and premia | 8.0 | 7.3 | 7.5 | 7.9 |
| Telecommunications | 6.5 | 6.6 | 6.6 | 6.7 |
| Fees and rechargeable works | 10.4 | 5.3 | 5.6 | 3.1 |
| Regeneration | 4.3 | 4.8 | 8.2 | 7.6 |
| Maintenance agreements | 3.5 | 4.5 | 3.9 | 3.6 |
| Water sales | 3.9 | 4.0 | 4.2 | 4.4 |
| Freight | 0.7 | 0.7 | 0.7 | 0.7 |
| Other | 0.5 | 0.4 | 0.4 | 0.4 |
| Total core income | 44.3 | 42.5 | 42.5 | 39.9 |

3.5.1.2 Core waterway expenditure

Controllable costs increase by £2.3m (2.1%) in year 1, largely due to a £2.5m (7%) rise in payroll costs relating to recruitment into existing vacant positions and annual pay increases. This additional cost is offset by a reduction of £1m in professional fees primarily relating to the use of engineering consultants on major projects.

The plan includes robust assumptions to protect expenditure on arrears projects, lock gate replacements, vegetation control and the replacement of sub-standard floating plant, all of which are being addressed as key business priorities.

The additional £0.8m defra grant is currently shown within the 'Other' category, pending final confirmation that the funding will be made available for all 3 years.

The principal areas of expenditure within Core Waterway are shown in the table below.

| Types of expenditure | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-----------------------------|-------------------------|-------------------------|-------------------------|
| Operational payroll costs | 18.1 | 18.7 | 19.2 | 19.8 |
| Management and support payroll costs | 19.0 | 20.2 | 20.7 | 21.6 |
| Staff related costs | 4.4 | 4.2 | 4.3 | 4.3 |
| Professional fees (not related to arrears) | 3.3 | 2.3 | 2.2 | 1.7 |
| Arrears | 24.2 | 23.8 | 28.3 | 28.3 |
| Dredging | 4.0 | 4.0 | 4.0 | 4.0 |
| Customer service improvements | 5.1 | 5.7 | 5.5 | 4.2 |
| Regeneration | 5.7 | 6.3 | 9.2 | 8.6 |
| General works programme | 22.1 | 22.3 | 21.0 | 20.0 |
| Other | 2.7 | 3.5 | 3.6 | 3.6 |
| Total core expenditure | 108.7 | 111.0 | 118.0 | 116.1 |

3.5.2 Commercial commentary

The largest elements of core waterway income are derived from operational property holdings and water sales. With the exception of third party contributions the costs associated with generating this income are very small compared with the cost of maintenance, as such income and expenditure are separated out below with separate priorities and milestones.

3.5.3 Core waterway income

3.5.3.1 Core waterway income priorities

Core waterway income priorities

- Secure and grow utilities business.
- Achieve new major wayleaves / premiums.
- Identify profitable waterspace acquisition targets (dowries / management contract) and deliver to plan.
- Freight strategy including waste by water projects.
- Achieve settlement to Grangemouth water supply issue.
- Achieve strategic alliance with Peel Holdings and dowry from Coal Authority.

3.5.3.2 Utilities

The plan includes £0.4m pa to fund the Utilities Team, whose main focus of new business activity in 2005/06 will be to complete negotiations with water companies for payment for surface water discharges into our waterways and to develop our new Mast partnership. A number of other smaller utility related business opportunities are also being explored, and crucially we will continue to maintain quality relationships to protect our income from the gas, electricity and telecoms industries.

3.5.3.3 Masts business

Having terminated our Mast agreement with Ultramast at the end of 2003/04, we entered into a new partnership agreement with NET in June 2004. Our projections assume the development of [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000] masts on our sites by the end of the plan period which will generate ongoing rental income of [Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000]. The plan includes rental income of £50,000, £100,000 and £150,000 in each of the years 2005/06 to 2007/08 respectively as the business builds up mast sites on BW land. This is presented within our total income for Utilities.

The emergence of the G3 market, the plans by the telecoms operators for mast networks and the reputation of NET underpin our market share assumption, but clearly this new business area has more risk in achieving target.

3.5.3.4 Property rents and premia

Property income within the Core business area relates to easements or licences for works in, over, under or along the waterway corridor and may relate to bridges, gateways, accesses, underground pipes or cables, or tenancies of land forming part of the waterway corridor. The plan includes approximately income to the value of £6m per annum from such sources. In addition, circa £1m of speculative income from premia is included in each year, which is in line with results of previous years.

3.5.3.5 Telecommunications

[Confidential material removed as exempt from disclosure under section 43 of the Freedom of Information Act 2000] This is an important contract, which we aim to protect by ensuring that cables are not damaged during the course of our operational activities.

3.5.3.6 Fees and rechargeable works

We aim to recover all costs associated with works that we undertake and professional services that we provide on behalf of third parties. Our fees cover all external costs, such as materials, contractor services, professional fees, internal time and a profit element.

3.5.3.7 Regeneration

Regeneration income arises when we are successful in negotiating with external organisations, such as local authorities, to pay for mutually beneficial improvements, such as additional towpath or public realm works, above the levels normally funded from government grant. Such contributions rarely cover the full value of the agreed works and BW would normally contribute a small amount from our core programme.

Third party contributions towards regeneration activities are expected to be £4.8m in 2005/06, £8.2m in 2006/07 and £7.6m in 2007/08.

3.5.3.8 Maintenance agreements

The plan includes income of circa £4m per annum from third party agreements to contribute to the cost of maintaining our assets, such as local authority funding towards towpath maintenance. We also have similar agreements relating to the maintenance of rights of way and common access routes for which we are wholly or partially responsible.

3.5.3.9 Water sales

The future of our water sales business is inextricably linked with the Watergrid joint venture which is described in the Ventures section of the plan. This plan assumes that the main vehicle for new large water sales agreements going forward will be channelled through Watergrid, which limits the potential for new BW sales. The main priorities for the BW water sales business will be to explore opportunities for smaller agreements, the efficient management of existing business and growing income where possible at contractual rate review points. Review of our major water customers (eg Bristol Water, United Utilities, Thames Water, Corus) is a priority, both to ensure security of supply and growth of revenues to BW.

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

3.5.3.10 Freight

Our plan anticipates £0.7m of income from freight tolls and wharfage charges, with £0.3m of associated direct expenditure.

We will continue to progress with the marketing strategy commenced in July 2003 to offer the main identified sectors access to the BW waterway system for use for carriage of freight.

The freight team will work with the new Freight Champions in the Waterway Business Units to achieve this and we will:

Aim to promote sustainable transport through removal of freight from road to water:

- seek to protect viable wharves on our network and re-instate those in our ownership where there is a proven demand, and taking advantage of any available freight facility grants
- aim to provide inter-modal facilities at inland ports and wharves, working with potential freight carriers and other partners to ensure that waterborne freight becomes more accessible with the aid of any available 3rd party funding

- investigate the potential for transporting freight ourselves, possibly via joint ventures with existing operators or customers
- continue to focus on the following sectors, which have the greatest potential for increasing freight activity on our waterways.

Minerals - we have been in discussion with some of our major players in the aggregates sector with some success. We will continue to work with them and others to develop the carriage of aggregates and other minerals by water wherever possible.

Waste and Recycling – there is considerable potential for the transportation of waste and recyclables by water which is becoming more recognised. As is the need for re-organisation of waste collection, including separation and sorting, along with the development of sustainable recycling and disposal schemes which could be supported through industry investment. The recent approval by the London Borough of Hammersmith & Fulham for the Powerday plc recycling centre at Old Oak Sidings, Willesden is an example.

We will continue to assist both in National & Local waste and recyclable studies to develop sustainability and intermodality in waste stream and to encourage recognition that, through recycling, waste is an asset that can and should be moved by water where practical to do so.

We will continue to work with local and regional authorities and planners to demonstrate the benefits of the transportation waste by water.

This will continue to assist in fulfilling government policy and demonstrate our commitment in suggesting sustainable solutions. In some cases the wider benefits may justify us investing more in the provision of facilities adjacent to waterways.

Containers – are a classic example of intermodal and multimodal distribution mediums and as such have experienced major growth.

We continue to survey commercial navigations to establish what needs to be done to make them more suitable for modern vessels and container sizes. A study commissioned by us into the container market was positive in the role some of our waterways can play in the sector, and we continue with our discussions with interested parties to investigate the potential movement of containers by water via inland ports.

We continue to work with the Marine Coastguard Agency to establish national technical standards for commercial vessels and crew competencies so that they are in line with European Directives. This will provide increased credibility for inland waterway and sea-river fleets to successfully compete for cargo.

The simplified toll structure and revised our freight carriage conditions to provide greater clarity and certainty to freight operators adding to our commitment and support to freight operators.

3.5.3.11 Dowry acquisitions

Following success in recent years in the acquisition of additional waterspace and associated structures in return for dowry payment there are significant other opportunities available. Our analysis indicates that former dock space now supporting leisure businesses in locations such as Preston, Middlehaven (Middlesbrough), Swansea and Boston are potential targets.

There is also the possibility of extending our ownership in London Docklands and acquiring new build waterspace such as New East Manchester. It is anticipated that at least two of these acquisitions can be achieved within the period of the 3 year plan.

We are working with Peel Holdings to obtain a dowry from the Coal Authority in respect of mining subsidence compensation on the Bridgewater. This is part of our plans to develop a strategic alliance with Peel that would involve us in the management of the Bridgewater Canal and developing our interests together at Weston Point, Ellesmere Port, and Bowling (with Clyde Ports).

3.5.3.12 Core waterway income milestones

| Core waterway income milestones | Year |
|---|------------|
| • 78 mast sites on BW land generating rental income of £250,000 pa | March 2008 |
| • Conclude surface water discharge agreements | March 2006 |
| • Complete water sales negotiations with Thames, Corus and United Utilities | March 2006 |
| • Two new dowry acquisitions. | March 2007 |
| • Freight | |
| ▫ Secure £100k partnership for study into improvements to Aire & Calder for container traffic. | Sept 2005 |
| ▫ Deliver 2 new waste and recyclable projects in Midlands and Scotland | Dec 2005 |
| ▫ Completion of study into 'Multi-modal mass balance approach to transport of waste and recyclable material' | Sept 2006 |
| ▫ First timber movement out of the Great Glen using the Caledonian Canal (Annual Target: 50,000 ^T) | June 2006 |
| ▫ Commencement of waste/recyclable movement to/from Old Oak Sidings, Willesden (Annual Target: 100,000 ^T) | Dec 2005 |
| ▫ Development of Goole Intermodal Terminal | Sept 2006 |
| ▫ New aggregate traffic on River Trent (150,000 ^T pa) | May 2006 |
| ▫ Secure partnership funding for Aire & Calder improvements and development of Stourton Intermodal Terminal | Dec 2006 |
| ▫ New traffic from Goole Intermodal Terminal (100,00 ^T p.a.) | Jan 2007 |

3.5.4 Core waterway expenditure

3.5.4.1 Core waterway expenditure priorities

| Core waterway expenditure priorities |
|--|
| • Deliver arrears programme (to national phased consequence of failure strategy) |
| • Identify optimal cost base for adequate care of assets going forward and benchmark to reduce costs. |
| • Introduce and achieve new customer focused waterway standards to support an affordable programme of customer improvements targeted at leisure business priority areas. |
| • Increase use of recycled material. |
| • Continue to develop and implement plans for the use of operational capital expenditure. |

- Target discretionary operational spending to complement priorities in other business areas.
- Deliver workshops business plan.
- Initiative discussion on reclassification of waterways.

3.5.4.2 Statutory arrears

Work has been undertaken during 2004/05 to determine how best to phase expenditure to eliminate the arrears of maintenance by the public commitment date of 2012 and, ideally, by 2010.

We have established an Asset Management Programme Board to provide governance over the programme of works needed to clear the arrears. This is supported by better information from SAP and the enhanced inspection regime.

We have taken the decision to re-phase the spending profile on arrears that appeared in the 2004 plan. This has been done to address a number of changes since that plan was made:

- We need to respond to the strength of recent customer concerns on standards of dredging and vegetation management.
- We have not been able to secure additional grant funding from defra to enable us to weight arrears spending more heavily into the earliest years.
- Changes in other assumptions since the last plan mean there is insufficient funding to achieve our target minimum level of contingency / priority funds with the previous arrears phasing in place.
- We need to release funding to replace lock gates at a faster rate to prevent new arrears building up on these assets.

Part of the arrears spending previously assumed for the plan years has therefore been deferred into later periods. This has been accommodated within the existing backstop date by increasing annual spend from 2008/09 onwards.

We are satisfied that there is no unacceptable increase in asset risk from the change and assets with the highest consequence of failure will continue to be prioritised for repair first. The new investment in dredging will bring immediate benefits to the network and should contribute to improving our reputation with a key customer group. Given that our budgets will be tight in the period until the Ventures mature, it is unlikely that this work could have been accommodated otherwise.

The following table shows the latest phasing with figures from last year's plan for comparison. The new phasing has the additional advantage of offering a smoother profile over which to manage both the physical works and the financial allocation.

Arrears expenditure profile (£m)

| | This year's plan | Last year's plan |
|---------|-----------------------------|-----------------------------|
| 2005/06 | 23.8 | 28.8 |
| 2006/07 | 28.3 | 38.3 |
| 2007/08 | 28.3 | 38.3 |
| 2008/09 | 26.9 | 16.0 |
| 2009/10 | 26.9 | 16.0 |
| 2010/11 | 20.2 | 16.3 |

Any general contingency funds that are not required during the plan period will be reviewed for re-allocation and the totals shown in the table may be increased by any subsequent allocation.

Whilst the proposed phasing delivers completion at the end of 2010, there are significant risks to the funds available to the programme between now and internal target end date, particularly if grant is not increased in line with inflation. Therefore, as before, only the later date of 2012 can safely be given as a public commitment at this stage.

3.5.4.3 Water supply, management and flood control

Our plan includes annual expenditure of £2.3m to fund the central Water Management and SCADA Teams.

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

There is also the impact of the draft Water Bill, which will subject us to regulatory scrutiny and potential constraint, for our existing supplies. The European Water Framework Directive will, in due course, require even greater regulation of these resources. A project team headed by the Legal Director and including the Technical Director has been set up to oversee the implementation of these pieces of legislation to mitigate the impact on our business.

One of the main consequences of these two pieces of legislation, both of which are intended to protect the environment, is that BW will have to have a better understanding of its use of water if existing resources are to be safeguarded and applications for new sources successful. This improved understanding will come from an extended hydrometric network, with all data captured remotely by a SCADA system. We now have in place a core monitoring network giving good quality base data. It will not be sufficient to deal with all the issues that will arise from the new regulatory regime and both the SCADA and hydrometric network will have to be extended and many areas of the hydrometric network updated.

In 2005 the Water Resource Optimisation Model is to be extended to cover all appropriate canals, to assist in providing a strategic plan for utilisation of resources. The model will be refined with up to date rainfall and run off data within that same period.

Research will continue into the main components of water losses from canals to identify where future efforts are to be directed to minimise such losses.

During 2004, we developed a long-term water strategy, taking a 25 year horizon and modelling the impacts of climate change, growth in boat traffic and the new regulatory regimes. Based on a 1 in 30 year reliability for the network, the initial modelling indicated that the investment required over 25 years to sustain that standard could be between £35m and

£400m, depending on best and worse case scenarios. This is a large range and more work will be undertaken to improve the modelling and assess whether a 1 in 30 year standard is appropriate within the context of the funding available and in respect of meeting customer requirements. This work will be completed in 2005.

Where embankments have a history of overtopping, the risks and mitigation measures are covered through our principle inspection and maintenance programme. However, with the advent of more frequent flooding and climate change we are now embarking on an additional review.

Our research has identified high risk pounds and where full hydrometric assessments are required to fully understand the risk of overtopping. Where there is theoretical possibility of overtopping in extreme weather conditions a risk assessment with mitigation measures will be undertaken.

3.5.4.4 Workshops

The Workshops have been consolidated into three sites at Stanley Ferry, Bradley and Newark and a stand-alone SAP Business Company has been created. The workshops aim to break even each year, with an anticipated annual turnover of £2.4m. It is intended that the workshops will focus on the supply and manufacture of FSC timber and steel lock gates and the development of workboats for the whole of British Waterways. At the same time they will continue to manufacture gates for other navigation authorities, eg The National Trust, where capacity allows. Total annual production capacity is approximately 240 lock gates.

A national stock system will continue to be developed at Bradley workshops to provide a 24 hour delivery period of 90% of lock gate fittings required by the UK network. This will enable service levels to be maintained at the waterway.

With the development of the Project Trafalgar work (see 3.5.4.5), for the replacement of the national workboat fleet, Newark workshops will be heavily involved in the development of building prototypes, fabricating short production runs for specialist craft and modifying existing craft to meet the requirements of the new MCA regulations and the operating requirements of the business units.

Standards are being developed for the manufacture of all lock gates to ensure firstly structural compliance and secondly to enshrine the heritage aspect of the various gates used within the UK network. This will simplify the listed building consent issues required for the numerous lock gates that are now listed structures. The standards will simplify design and improve longevity and the service function of the gates.

3.5.4.5 Special projects - workboats and other plant

Following the review undertaken by the Floating Plant Working Group, Project Trafalgar has been created to consider the future use of workboats to ensure compliance with the Maritime and Coastguard Agency regulations and to enable the workforce and welfare facilities for BW staff to be improved. Project management costs are estimated at £0.3m in year 1.

Phase 1 of the project will supply floating plant to the value of £5.6m to waterway units across the organisation. Contracts are currently being let for the supply of 50 narrow beam hoppers and 10 tugs being supplied in 2005/06. At the same time, prototype versions of the welfare and workshop pods are being prepared with the intention of a contract being let for the supply of 100 for 2005/06. Prototype broad beam tugs and barges are being commissioned and will be built in Newark workshop during the same time period to allow for evaluation and trial by the waterways to be undertaken.

In 2006/07 it is intended, subject to Board approval and funding, that Phase II will replace the broad beam workboats as well as completing the roll-out of the narrow beam tugs and barges. In 2006/07 prototypes of the river barges and tugs will be undertaken and leading to further trials by the waterways.

In 2007/08, Phase III will complete the roll-out, subject to Board approval and funding will be taken forward of all narrow, broad and river craft.

During this period compliance checks will be undertaken of all BW craft to meet the requirements of the MCA. Craft will also be examined to see whether they are capable of modification to meet the MCA regulations and the requirements of the waterways as a more cost effective solution than full replacement.

As part of the compliance exercise all the current BW craft will need to be examined and surveyed to ensure they meet the requirements for stability and that no unauthorised modifications have been undertaken that may render them 'unseaworthy'.

3.5.4.6 Waterway standards

Waterway Standards are the principal means by which we define levels of customer service. The existing standards were revised during 2003/04 to make them more focused on the needs of all our customers. This process was supported by consultation with our customers in line with our commitment to Openness and Accountability. Further work is now ongoing to simplify the standards and align them with the business planning process. This will result in a set of standards which meet the customers needs, and are achievable and measurable. We will complete the first issue of our new standards by the end of 2005.

3.5.4.7 Reclassification

The Water Act and the Water Framework Directive will change the way water resources are managed and regulated. Our water resources are better protected where they relate to cruising waterways rather than remainder waterways. During the period of the plan we intend to build a case to achieve reclassification where we consider it beneficial.

| Core waterway expenditure milestones | Year |
|--|-------------|
| • Achieve annual statutory arrears expenditure of £25.1m and outstanding statutory arrears balance of £139.1m. | March 2006 |
| • Complete flood studies project and hydrometric studies on high risk sites | Dec 2005 |
| • Extend Water Resource Optimisation Model to all appropriate canals | Mar 2006 |
| • Extend and modernise hydrometric and SCADA network to deal with new regulatory regime | Dec 2007 |
| • Commence research into components of losses | Dec 2007 |
| • Complete research on water catchment areas for embankments | Dec 2007 |

3.6 Corporate services

3.6.1 Corporate services priorities

Corporate Services priorities

- Significantly reduce occupied property costs
- Implement 'New ways of Working - Model Office' to achieve cost benefits
- Consolidate SAP implementation and realise benefits including integration of management accounts into the business
- Successfully migrate identified processes into shared service
- Secure better value from BW Group buying power
- Achieve 5% energy reduction
- Embed Openness and Accountability systems and procedures
- Implement the recommendations of the End to End Review particularly the conversion of grant in aid to contract based payment
- Firmly establish an effective governance mechanism to address 'fair trade' issues

| | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-------------------|-------------------|---------------------|-----------------|-----------------|-----------------|
| Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Expenditure | | | | | | |
| Controllable costs | 26.3 | 24.4 | 27.4 | 25.4 | 24.5 | 24.5 |
| Contribution before depreciation | (26.3) | (24.4) | (27.4) | (25.4) | (24.5) | (24.5) |
| Depreciation | 4.6 | 1.4 | 1.0 | 1.0 | 1.0 | 0.7 |
| Contribution after depreciation | (30.9) | (25.7) | (28.4) | (26.4) | (25.6) | (25.2) |
| Profit / (loss) on disposal of non property assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Accounting Profit / (loss) | (30.9) | (25.7) | (28.4) | (26.4) | (25.6) | (25.2) |
| Less 6% cost of capital charge | 0.4 | 1.3 | 1.2 | 1.3 | 1.3 | 1.0 |
| Economic value created / (consumed) | (31.3) | (27.0) | (29.6) | (27.6) | (26.8) | (26.2) |

3.6.2 Financial commentary

The corporate services budgets for all waterway units include the employment cost of the General Manager, finance and administrative staff and waterway office running costs. We also allocate central and overhead costs, which relate to the strategic, policy development and general management of the business to the corporate services business area.

Some operational costs are allocated to Corporate Services where it makes business sense to organise activities centrally or where corporate visibility is essential to maximise efficiency. Such activities include:

- Personnel - £3.3m
- Legal - £0.8m
- Common Services - £2.5m, including the new Shared Service Centre £1.5m
- Specialist Technical Services - £1.2m
- IT Infrastructure – £5.6m, of which £3.8m relates to outsourced service provision.

We plan to reduce our corporate services costs over the three year period by taking action to curb the absolute level of overhead costs. The biggest single reduction comes from anticipated savings from occupied property costs, primarily offices. There are currently 17 properties within the corporate services business area, with a total book value of £18.9m and annual running costs of £2.5m.

Savings will be achieved and / or additional income created as currently occupied premises are sold on. The plan assumes that we will vacate our owned offices at Fearn's Wharf in Leeds and Willow Grange in Watford in year 2, potentially freeing up £14m of capital and more than halving the £1.5m running costs. We also plan to vacate rented premises in Warrington and to implement a policy on space occupancy by year 3. We aim to reduce space occupancy in our offices to accommodate an average of 60% of staff employed in each office. This will be achieved by freeing up space in existing offices or moving to smaller premises and making use of more efficient working arrangements, such as hot-desking and home-working.

3.6.3 Commercial commentary

Corporate service costs include all costs that cannot be attributable directly to a business area. The costs include IT infrastructure and outsourcing contracts, shared services for finance and personnel, corporate marketing as well as strategy and policy setting.

Following the business re-organisation we are actively pursuing a policy of rationalising the amount of occupied property consistent with achieving our customer service objectives.

We are looking for the best way to minimise total occupancy costs and maximise investment income or development potential.

Our priority for SAP is to build on the recent success of onsite based support visits to develop confidence in users so that they can begin to exploit the system. The General Managers will be enabled to genuinely use the technology to run their business smarter.

Phase 2 of Shared Service migration successfully completed in November 2004. Plans are now being put in place to migrate further processes in another 2 phases. Transfers into shared services are targeted for a 30% efficiency saving.

Continued development of the Procurement function will be actively pursued. The plan includes expenditure of £0.4m per annum in this area. The main changes will be as follows:-

- i) A greater focus on maximising the economic advantage of BW Group buying power.
- ii) The transfer of routine works to the shared service centre to free up Procurement Managers to undertake national procurement roles.
- iii) Early development of the electronic procurement capability of SAP to secure better values and further reduce transaction costs.
- iv) Changes to the budgeting system that will enable procurement savings to be ring fenced for allocation in line with Group priorities.

Following a major initiative undertaken during 04/05 the Omnibus engineering contracts have been reviewed to identify how best to improve on current values obtained from Omnibus. This has resulted in a major re-structure of the Omnibus Teams within BW and the reduction of one Omnibus contractor.

3.6.4 End To End Review

Following conclusion of the End to End Review during the latter part of 2004/05, the key priority for the new year will be implementation of the main recommendations particularly conversion of grant in aid to a contract based service level agreement.

Other changes that will be actively pursued during the plan period relate to:

- development of standard costing techniques to allow benchmarking between business units, eg on operating costs and unit costs within major works
- identification of alternative or additional financial reporting regimes that take account of the value of the core track asset
- utilising the above to introduce meaningful external benchmarking, eg with water companies, etc
- identification of investment opportunities in non BW water corridors to take advantage of the proposed investment remit extension.

3.6.5 Pension fund

During 2004/05 work was carried out with our actuaries to complete a triennial valuation of the Pension Fund.

This identified a deficit of c. £42m, which has been addressed by a combination of additional company contributions and changes to benefits. The deficit will be repaid over 15 years, beginning April 2005, at a net cost of £1m per annum (after benefit changes and a new waiting period). This figure is budgeted within the planned contingency.

3.6.6 Openness and accountability

Following the successful consultation we are now establishing the processes and procedures to fully meet our commitments to Openness and Accountability. This includes the establishment of the BW Advisory Forum.

3.6.7 Fair trading

All businesses are subject to increasingly rigorous competition and fair trading regulation, particularly following the coming into force of the Enterprise Act 2002. Furthermore, as BW seeks to achieve greater self-sufficiency through growing our leisure and commercial activities, we will increasingly be in competition with businesses, which are also reliant to a greater or lesser extent on the waterway network in our care. This places a particular obligation on our organisation to ensure that our management of the network does not give unfair competitive advantage to our own business activities. The Board's Fair Trading sub-group will help monitor and advise on these issues.

Various initiatives in recent years, such as the introduction of SAP accounting systems, have better equipped BW to meet these increasingly rigorous competition law requirements. As our competitive activities develop, we will ensure our systems for competition and fair trading compliance keep pace and are fully fit for purpose. However, if the costs of compliance prove to be too onerous within a particular business sector, we will endeavour to seek alternative ways of working or alternative business areas to develop in order to achieve our objectives.

Our actions to counter criticism and misrepresentations in respect of our marinas business demonstrate our commitment to operate, and be seen to operate, transparently. We have already communicated to key user groups our intention to publish a 'prospectus' for marina

development on the network and to help in reducing some of the hurdles involved in successful marina development. We are actively meeting organisations such as BMF to address our concerns.

| Corporate Services milestones | Year |
|---|-------------|
| • Implement outcomes from review of major offices. | Dec 2005 |
| • Identify possible functions for phase 3 transfer to Shared Services | Mar 2006 |
| • End to End Review recommendations implemented | Mar 2006 |
| • Contract framework agreed to Heads of Terms with Defra | Nov 2005 |
| • Detailed contract agreed with Defra | Mar 2006 |
| • Contract replaces grant in aid | April 2006 |
| • Standard costing based benchmarking live | Jan 2006 |
| • Complete first annual external benchmark exercise | Mar 2006 |
| • Proposal for new remit investment programme | June 2006 |
| • All offices to achieve 60/40 space planning | Mar 2008 |

4 SUSTAINABLE DEVELOPMENT

Our statutory responsibilities extend beyond just those of a navigation authority and the maintenance of the waterway infrastructure. We believe in a sustainable approach to the long term management of the network and this requires us to balance the needs of the environment, heritage, social inclusion and economic growth in all that we do.

We will deliver corporate social responsibility through four themes:

- Our People (see section 2.5 above)
- Customers and Communities
- Environment and Heritage Management
- Resource Management and Procurement.

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

We analyse our business areas and the way they interact with the three sustainable development areas as follows:

| 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 |

We have continued to build upon the above and begun to measure progress using the indicators identified. Our target results for year 1 of the plan are shown in the table below.

| Business Areas | Sustainable Development Themes | Note | Target 05/06 | Indicators |
|-----------------------------------|--|------|------------------|--------------------------------|
| Social | | | | |
| Leisure | Number of visitors (million adult visitors per 2 week period) | (1) | 2.9 | To double this figure by 2012 |
| | 'Excellent' visitor satisfaction levels – boat owners | (2) | 7% | 15% by 2008 |
| | 'Excellent' visitor satisfaction levels – towpath users | (3) | 40 | 66% by 2008 |
| Property | Affordable housing units planned | | 1461 | Rolling 5 year cumulative plan |
| Core Waterway | Improved appreciation through changed attitudes | (4) | 75 | 82 by 2008 |
| Core Waterway | Miles of newly accessible waterways corridor | | To be determined | 120 (cumulative) |
| Ventures | Hits (page impressions) on waterscape.com website (millions) | | 1.174 | 50 (cumulative) |
| Environment & Heritage | | | | |
| Leisure | Number of interpretation schemes completed | | > 10 | 100 (cumulative) |
| Property | Reduce number of our buildings on English Heritage & LA 'at risk' register | | Reduce by 25 | 27 on registers by 2008 |
| | Management agreements prepared for historic sites | | > 10 | |
| Core Waterway | Reduced CO ₂ emissions from employee vehicles by reducing business mileage (million miles pa) | | 5.3 | 4.5 by 2008 |
| Restoration | Miles of historic waterway restored | | 0.5 | 10 (cumulative) |
| Ventures | % of projects meeting sustainable development criteria | | 100% | 100% |

Notes

- (1) In August 03 we commissioned a new long-term survey to get a clear idea of the number and type of waterway visits. Data so far suggest that there are an estimated average of 3.6 million adults visiting our waterways over a two week period during the year, generating around 415 million visits over the whole year.
- (2) Percentage of boat owners that rate the overall upkeep of the waterways as excellent (68% rate them as good or excellent).
- (3) Percentage of towpath users that rate the overall enjoyment of the waterways as excellent (91% rate them as good or excellent).
- (4) We have a telephone tracking survey which traces movements in public perception of the value of canals and rivers compared with other nationally important assets. Currently, the seaside is rated at the top of the scale at 100, followed by parks and gardens at 90, woods and forests at 86, historic houses, castles and other monuments at 78, zoos, wildlife parks and farms also at 78 and museums and galleries at 73. Valued at 64, canals and rivers are starting at the bottom of the list of those surveyed. Our vision is that by 2012 inland waterways will be regarded as one of the nation's most important and valued national assets.

4.1 Customers and communities

4.1.1 Customers

We must continue to improve our customer focus as a business and realise that unless we delight our customers we shall not receive the financial support we need to achieve our vision.

Our programme of market research will inform us about both existing and potential customers.

We accept that providing excellent services and facilities to many of our customers far outweighs the pure economic benefit of doing so. This creates a significant challenge in resource allocation and setting priorities.

Where we do provide services and facilities to customers we should charge a market rate that delivers value for money to the customer.

We wish to grow our customer base and accept that will only happen if we provide an excellent product backed by excellent service at an affordable price.

Using our network we are uniquely placed to deliver considerable benefit to customers and communities. It is our intent to grow our net income so that we can direct more resource to our customers and communities.

4.1.2 Communities

The waterways bring enormous social benefits and opportunities, enhancing community wealth and quality of life. Unlike most rivers, canals are public open spaces where we encourage access, which allows millions of people to visit and enjoy them each year.

However, we have scarce resources and the opportunities for involvement with local communities are immense. Therefore our efforts must be carefully managed, so we achieve real progress across a small number of activities, appropriate to their location, rather than simply be involved in a large number. We shall therefore concentrate on:

- Access for all with short term emphasis on meeting the requirements of the Disability and Discrimination Act.
- Community relations (encouraging greater use by a diverse range of people, reduction of vandalism and threatening behaviour)
- Education (through WOW and the promotion of sporting activities on the waterways).

Within the context of a small number of activities, there will be opportunities for socially excluded groups including minorities, people with low incomes and the disabled.

By using the knowledge of our local people, and partnering with local community groups in order to make specific, manageable and therefore affordable choices, we shall maximise the social benefits of the waterways.

4.1.3 Customers and communities: principles

- Waterways are in essence a leisure facility and public amenity.
- The waterways will be accessible to and valued by all communities.
- Economic prosperity and social harmony in communities adjoining our waterways are essential for the waterways long-term future.
- We shall be an open and accessible organisation.
- Our future and financial security depends on us meeting our customer needs.
- We are committed to making the waterways relevant, attractive and enjoyable to local communities, visitors and users.
- We will listen to what our customers and communities say and actively seek their involvement and support in what we do.
- Partnerships with the private, public and voluntary sectors are an integral and essential part of fulfilling our aims and objectives.
- We shall act commercially and charge market rates that, at all times, offer good value for money.

| Customer and Community Milestones | Year |
|--|------------|
| • Disability Equality Scheme in place | April 2005 |
| • Customer satisfaction targets in place | April 2005 |
| • BW Advisory Forum established | June 2005 |
| • Upper quartile in National Complaints Culture Survey | March 2006 |
| • Canals and rivers reach at least midpoint on 'public perception of value' tracking study | March 2008 |

4.2 Environment and heritage

4.2.1 Principles

- The best of the heritage, environment and amenity of the waterways must be conserved and wherever possible enhanced.
- Quality and technical excellence is of primary importance in the conservation and enhancement of our built and natural environment and wider landscape.
- The importance of local character, diversity and associated cultural value and how it influences the business must be understood by our people.
- Heritage, environmental and landscape research, analysis and training will underpin strategic planning, project development and management decision making.
- We will optimise our response to changing UK and European environmental and other legislation and ensure that our practices and performance are compliant.
- Our performance in this area will be measured and monitored through the new Environmental Management System that covers all aspects of sustainability.
- Availability of water is also a key to sustaining a high quality of environment. A lot of work is being undertaken in predicting impacts of climate change, new legislation and growth in activity.

4.2.2 Environment & heritage milestones

| Environment & heritage milestones | Year |
|---|-----------------|
| • Environmental Code of Practice to be replaced | Sept 2005 |
| • Produce National Water Quality Report | Dec 2005 |
| • Environmental Management System complete | Jan 2006 |
| • Eliminate all buildings at risk on English Heritage Register | Feb 2007 |
| • Use Water Framework Directive Classification Schemes to monitor our water quality | April 2007 |
| • Management Plans for all SSSI's to be reviewed and agreed with appropriate bodies | Sept 2007 |
| • 100% compliance with statutory consents and conditions | Throughout |
| • Management plans prepared for historic buildings | Q4 2005 onwards |

4.3 Resource management & procurement

We will actively manage our environmental impacts, reducing and minimising our use of non-renewable resources and seeking alternative sources, where this is sustainable for the business.

The principles behind CSR and the way we manage the environment will be understood and reflected in the way we procure our suppliers, contractors, consultants and partnership vehicles and performance will be monitored and reviewed.

Managing and minimising our waste streams is important for all our business activities and is an expectation of our customers and visitors as well as a legal requirement. Our main areas of consumption and waste production are:

- Water for operating the network
- Energy – Electricity
 - Fuel
- Construction Materials – Aggregates
 - Timber
 - Steel
- Office Consumables – Waste management strategies will be produced for each business unit, detailing recycling, disposal routes and record management. We will be gathering data in 2005/06 to establish a benchmark against which future targets can be measured.
- Dredging.

4.3.1 Resource management & procurement milestones

| Resource management & procurement milestones | Year |
|--|------------|
| • 5% Electricity reduction | March 2006 |
| • 10% Reduction in business mileage | March 2006 |
| • 40% Recycled aggregates used in our construction | March 2006 |
| • Audit of waste produced on BW premises and establish benchmark | Sept 2005 |
| • 10% Reduction in total amount of waste produced from BW premises | March 2007 |
| • All timber (hardwood and softwood) purchased by BW to be FSC compliant | April 2006 |
| • 65% Recycled aggregates used in our construction | March 2008 |
| • 30% Electricity reduction | March 2008 |

APPENDIX 1 – GOVERNMENT GRANT

| | Actual 2003/04 | Budget 2004/05 | Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|--|-------------------|-------------------|---------------------|-----------------|-----------------|-----------------|
| Cash | | | | | | |
| Defra - Base | 61.6 | 59.1 | 59.1 | 62.4 | 62.4 | 62.4 |
| Defra - Arrears | 15.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Scottish Executive - Base | 14.5 | 11.3 | 14.9 | 8.9 | 10.9 | 11.4 |
| Scottish Executive - Anticipated | | 2.0 | | 2.0 | | |
| Cash grant receivable | 91.1 | 72.4 | 74.0 | 73.3 | 73.3 | 73.8 |
| Opening grant accrual | (4.4) | (7.2) | (7.2) | (4.8) | (4.8) | (4.8) |
| Closing grant accrual | 7.2 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 |
| Deferred capital grant released to P&L | 1.5 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Grant allocated to capital expenditure | (0.7) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non cash transactions | 3.6 | (1.1) | (1.1) | 1.3 | 1.3 | 1.3 |
| Grant credited to P&L account | 94.7 | 71.3 | 72.9 | 74.6 | 74.6 | 75.1 |

APPENDIX 2 – PROFIT & LOSS ACCOUNT

The following table shows the planned income, expenditure and net contribution for the each of the three years beginning April 2005. Forecast results for 2004/05 are provided for comparison.

| | Q3 Forecast 2004/05 | Plan 2005/06 | Plan 2006/07 | Plan 2007/08 |
|---|------------------------|-----------------|-----------------|-----------------|
| Property | 27.6 | 28.7 | 29.6 | 30.6 |
| Leisure | 18.1 | 19.5 | 20.4 | 21.2 |
| Restoration | 5.6 | 17.7 | 23.3 | 15.1 |
| Core Waterway | 44.3 | 42.5 | 42.5 | 39.9 |
| Corporate Services | 0.0 | 0.0 | 0.0 | 0.0 |
| Ventures | 8.2 | 16.9 | 14.8 | 20.4 |
| Grant | 72.9 | 74.6 | 74.6 | 75.1 |
| Income | 176.7 | 199.8 | 205.3 | 202.3 |
| Payroll Costs | 58.9 | 62.3 | 65.4 | 67.9 |
| Staff Related Costs | 8.5 | 7.5 | 7.6 | 7.5 |
| Materials & Contract | 69.5 | 81.1 | 92.9 | 80.2 |
| Operational Costs | 8.5 | 9.2 | 9.5 | 10.3 |
| Premises Costs | 9.0 | 8.5 | 7.9 | 7.5 |
| Professional Fees | 14.0 | 9.7 | 8.7 | 8.7 |
| Outsourcing | 3.7 | 3.7 | 3.7 | 3.7 |
| Marketing Costs | 2.8 | 2.4 | 2.5 | 2.6 |
| Office Services | 3.1 | 2.9 | 3.0 | 2.9 |
| Costs of Goods Sold | 2.8 | 5.0 | 6.2 | 7.2 |
| Own Work Capitalised | (1.6) | (1.9) | (1.5) | (1.5) |
| Other Costs | 2.1 | 3.4 | 3.6 | 4.7 |
| Total Expenditure | 181.4 | 193.8 | 209.5 | 201.7 |
| Profit/(Loss) before Interest | (4.6) | 6.0 | (4.2) | 0.6 |
| Interest (Payable)/Receivable | (2.0) | (1.3) | (1.2) | (1.0) |
| Profit/(Loss) after Interest | (6.6) | 4.7 | (5.3) | (0.3) |
| Transfer to/(from) Realised Capital Reserve | 2.5 | 0.3 | 0.3 | 0.3 |
| Profit /(loss) after Transfers | (4.1) | 5.0 | (5.0) | (0.0) |

Commentary

(Note that figures quoted in each sub-heading are for 2005/06, with a prior year comparison)

1 Income

1.1 Property £28.7m (27.6m in 2004/05)

The increase in income of £1.1m (4%) in 2005/06 is primarily due to the Wood Wharf partnership and the acquisition of Camden Interchange, which will generate rental income of £2m and £1.8m respectively.

This additional income is offset by the loss of rental income from property disposals, such as Ellesmere Port and disposals into WP5 and is in line with our ventures strategy.

The modest growth of approximately 3% per annum in future years reflects the lack of new capital to invest. We will simply be churning the estate.

1.2 Leisure £19.5m (£18.1m in 2004/05)

The increase in income of £1.4m (8%) is due to craft licence and moorings £0.7m, improved sales from the Falkirk Wheel attraction £0.4m, and the further development of retail outlets elsewhere £0.3m. Growth of 5% is expected in future years.

1.3 Restoration £17.7m (£5.6m in 2004/05)

The increase in income of £12.1m (216%) is due to some major restoration projects reaching the construction phase. These include the Liverpool Canal Link £6.4m, Bow Back Rivers £3.1m, Droitwich Canal £2.8m and the Cotswolds Canal £1.9m.

This is matched by increased expenditure, particularly in the areas of payroll and contract.

1.4 Core Waterway £42.5m (£44.3m in 2004/05)

The reduction in income of £1.8m (4%) is primarily due to lower third party contributions for regeneration activities £5m. This shortfall is partially offset by the increase in income from utilities agreements £2.4m. Income dips in 2007/08, when we expect the back-dated element of income from utilities agreements to cease.

1.5 Ventures £16.9m (£8.2m in 2004/05)

The increase in income of £8.7m (106%) is primarily due to revenue growth in BWML £3.3m, the entry premium for Wood Wharf £2.3m, dividends from Edinburgh Quay £2.9m, Timber Basin £0.4m.

1.6 Grant £74.6m (£72.9m in 2004/05)

The increase in government grant of £1.7m (2.3%) reflects the following movements:

- the reinstatement of the £2.5m, which was taken out of last year's plan as a late adjustment
- the additional £0.8m, which is confirmed for year 1 is hoped to continue into future years
- the £1.6m net effect of a reduction in grant from the Scottish Executive £4m and reduced closing grant accrual £2.4m.

2 Expenditure

2.1 Payroll £62.3m (£58.9m in 2004/05)

The increase of £3.4m (6%) is due to additional BWML staff to drive sales, short term appointments related to the growth in restoration activity, the new incentive scheme for more junior staff and delays in filling current year vacancies. Agency staff costs will reduce as a result of vacancies being filled (see 2.2 below).

2.2 Staff related costs £7.5m (£8.5m in 2004/05)

The reduction of £1m (12%) is primarily due to lower fees for agency staff £0.7m and one-off costs in 2004/05 associated with the restructure, ie redundancy payments £0.5m and relocation costs £0.3m. These items are partially offset by an increase in training costs £0.3m and company car costs £0.2m. No material changes are expected in future years.

2.3 Materials and contract £81.1m (£69.4m in 2004/05)

The increase of £11.7m (16.8%) reflects the construction costs associated with the higher level of restoration activity and our commitment to target expenditure towards our higher risk assets, dredging, vegetation management and lock gate replacements. The further increase in year 2 and dip in expenditure in the final year is in line with the phasing of restoration and regeneration income.

2.4 Operational costs £9.2m (£8.5m in 2004/05)

The increase of £0.7m (8%) is largely due to lease costs for new floating plant £0.4m and operational vehicles purchased during the prior year £0.3m. Costs increase over the plan period reflecting the full year effect of the lease charges for items purchased.

2.5 Premises costs £8.5m (£9m in 2004/05)

The reduction in costs of £0.5m is due to the vacation of rented offices at Westbourne Grove £0.2m, and the drive to achieve savings in utilities costs. This trend is expected to continue over the plan period.

2.6 Professional fees £9.7m (14m in 2004/05)

The reduction in fees of £4.3m (31%) reflects the level of one-off projects undertaken in 2004/05. Consultants and legal fees incurred in setting up of Waterside Pub Partnership, Wood Wharf £0.9m, and other ventures, £0.4m, as well as in developing the Shared Service Centre and other process improvements, £0.6m, will not be repeated in 2005/06.

The anticipated use of consultants for major repair and renovation projects is £1.8m lower than in the prior year, due to the differing nature of the projects. Consultants and legal fees relating to property are also expected to be lower £0.4m, and lower for IT by £0.3m. Continued savings on professional fees have been built into the future plan years.

Private and Confidential

2.7 Cost of goods sold £5m (£2.8m in 2004/05).

The increase in expenditure of £2.2m (78%) in year 1 is expected to continue across the plan period to support expanding businesses within BWML and at attraction sites such as the Falkirk Wheel.

2.8 Net interest payable £1.3m (£2m in 2004/05)

The reduction in net interest payable of £0.7m (35%) reflects the decreasing balance on NLF loans and improved interest receivable. This trend continues through the plan period, with interest payable in respect of Port of London Properties also ceasing.

2.9 Transfer to / from realised capital reserve nil (£2.5m in 2004/05)

The 2004/05 balance related primarily to fees associated with Wood Wharf and the Waterside Pub Partnership, which could not be capitalised under accounting standards, but are funded for management accounts purposes by commercial capital receipts.

2.10 Priorities fund £5m (£4m in 2004/05)

This relates to funds specifically identified within the numbers overleaf to secure customer service and asset integrity objectives.

APPENDIX 3 – SUMMARY SCOTLAND PLAN

1 Profit and Loss Account

| £m | Q3 Forecast 2004/5 | Plan 2005/6 | Plan 2006/7 | Plan 2007/8 |
|--------------------------|-----------------------|----------------|----------------|----------------|
| Property | 0.4 | 0.5 | 0.4 | 1.1 |
| Leisure | 2.2 | 2.7 | 2.8 | 2.8 |
| Restoration | 3.6 | 2.0 | 0.0 | 0.0 |
| Core Waterway Income | 1.2 | 1.1 | 0.9 | 0.9 |
| Ventures | 0.2 | 2.9 | 0.0 | 3.5 |
| Grant | 12.5 | 10.9 | 10.9 | 11.4 |
| Income | 20.1 | 20.1 | 15.0 | 19.7 |
| Payroll | 5.0 | 5.5 | 5.6 | 5.7 |
| Staff Related Costs | 0.5 | 0.5 | 0.6 | 0.6 |
| Materials and Contract | 8.3 | 5.9 | 4.7 | 5.9 |
| Restoration contract | 3.6 | 2.0 | 0.0 | 0.0 |
| Operational Costs | 0.5 | 1.0 | 1.0 | 1.0 |
| Premises Costs | 0.6 | 0.7 | 0.7 | 0.7 |
| Professional Fees | 0.8 | 0.6 | 0.7 | 0.6 |
| Office Services | 0.4 | 0.3 | 0.3 | 0.4 |
| Publicity | 0.3 | 0.4 | 0.4 | 0.4 |
| Cost of goods sold | 0.4 | 0.5 | 0.5 | 0.5 |
| Other costs | 0.7 | 0.6 | 0.6 | 0.6 |
| Total Expenditure | 21.1 | 18.0 | 15.1 | 16.4 |
| Profit/ (Loss) | -1.0 | 2.1 | -0.1 | 3.3 |

A loss arises in the years 2004/05 and 2006/07, mainly as a result of make a difference funds and customer improvements, which are funded by BW group.

We are expecting our Edinburgh Quay venture to generate a net contribution after depreciation of £2.9m and £3.4m in 2005/06 and 2007/08 respectively. The resulting bottom line profit is partially offset by items funded by BW group.

2 Income

2.1 Grant

In the current year, 2004/5 we have been awarded an additional £3.6m of ad-hoc funding. This funding will, among other things, allow us to clear £2.8m of arrears, undertake £0.25m of health and safety improvements and tackle £0.23m of customer issues.

In recent years, with the help of Scottish Executive additional funding we have been able to eliminate safety backlog. While we can only be sure of the baseline grant, the Scottish Executive has indicated continuing support and we have therefore produced a plan for 2005/6 based on a baseline grant of £8.9m plus an anticipated additional grant of £2m.

For 2006/7 the Scottish Executive has announced an increase in our baseline level of Grant in Aid from £8.9m to £10.9m and to £11.4m in 2007/8. This will allow us to make progress even after the effects of inflation on expenditure.

2.2 Restoration

The reconnection of Port Dundas to the Glasgow branch of the Forth & Clyde canal in Glasgow is a £5.6m project spanning two years 2004/5 and 2005/6. The project is scheduled for completion by the end of quarter 3 2005, and is presently projecting to complete on time and cost.

The project is the catalyst for a thousand acre redevelopment of North Glasgow, and sits within an ISIS development site.

2.3 Joint Ventures

Within the three years of the plan, joint venture developments are scheduled to produce significant one off profits. Of course there is a risk that the markets may change, or that the project yields may not be adequate to allow us to proceed. Thus we will at all stages assess the risks and prospective rewards prior to final commitment. Where dividends or capital profits arise they are returned to BW group for reinvestment / redistribution.

2.4 Leisure

2005/6 will see the first full year of operation of the two new higher capacity trip boats which were delivered in the summer 2004. The enhanced capacity will allow us to take advantage of higher visitor numbers at peak times and thus generate additional income and importantly provide disabled access. We are also improving the operational integration of the Wheel and the Lowlands canals.

The new mooring basin at Auchinstarry will be operational for the whole of 2005/6. This will result in modest growth in moorings income. We also anticipate modest growth in craft income during the period of the plan. Due to the geography and nature of the canals in Scotland, transits are significant feature, with around 2500 licences issued annually.

3 Expenditure

Following a number of internal and external reviews regarding staffing levels, we strengthened our team across management, customer service and operations. The full cost of these changes is reflected for the first time in 2005/06 as it took some time to identify the appropriate individuals. While the internal changes are not fully complete, we do not anticipate significant changes to staffing levels and payroll cost beyond inflation over the plan period.

We continue to challenge our underlying cost base and only forecast modest increases over the period of the plan.

There is some evidence that raw materials and contract costs are rising faster than general inflation. This will impact what we are able to achieve with the available funds.

4 Commercial

BW Group has committed to investing additional funds in Scotland to generate an additional income in Scotland, and thus 'match' the commitment made by the Scottish Executive to the overall funding of the canals in Scotland. This investment is currently not reflected within the three year plan as appropriate investments with the right combination of risk and income yet to be identified. This will therefore form an important part of our property development work.

5 Lowlands Canals

The Lowlands canals are an emerging if currently small market which will require to be nurtured and developed. Our future income generation 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 wider regeneration is crucial.

We have a nodal development strategy which is being used to steer this development. The reconnection of Port Dundas is unlocking a major node, embracing much of the Glasgow branch of the Forth & Clyde Canal. Edinburgh Quay is creating a significant node at the Terminus of the Union Canal. The Falkirk Wheel forms a central node at which we are developing a master plan and future development framework adjacent to the Wheel. Smaller nodes are underway at Auchinstarry and Bowling. Other nodes are at various stages of formation e.g. Kirkintilloch Basin, Ratho, and Witchburn.

We cannot take forward all of the nodes together and are currently concentrating on Glasgow, Edinburgh Quay, the Wheel, Bowling and Auchinstarry.

6 Highlands Canals

2004/05 sees completion of the restabilisation phase of the Caledonian locks programme, which secures the asset well into the future.

2005/06 will see the first full year of the flexible operating agreement reached with our staff in 2004/05. The benefits of the negotiated settlement creating a new framework to allow management to manage the canals to suit the business and which rewards employees appropriately should begin to be realised in operational improvements

7 Aims

We wish to see the canals of Scotland fulfil their potential to add value for the people of Scotland. Our overarching aim is to ensure that Scotland's canals fulfil their economic and leisure potential. We want to deliver busier and more vibrant waterways as a catalyst for urban and rural regeneration. To achieve this we need to meet the increased standards of service and support expected by our customers. We therefore consider that the canal infrastructure and facilities, particularly on the Lowlands canals require significant investment and improvement.

We recognise that there is some resistance to commercial changes, and, recognise that our neighbours can be uncomfortable with increasing canal side activity. The process of change has to be carefully managed to ensure the canals become integrated into the communities they serve.

In order for the canals to benefit as many people as possible, input and support from canalised communities and other organisations is required. We will therefore build further communication with partner bodies and foster an integrated approach to the canal operation and development.

8 Strategic Priorities

The delivery of busier, more vibrant waterways, which add value to Scotland.

- Establish a fully functional Scottish Canals Development Group
- Deliver nodal developments in the Lowlands canal corridor
- Eliminate arrears
- Improve customer service

9 Key Challenges

- Wherever compatible with our vision to use the waterways as a catalyst for urban and rural regeneration
- We must achieve balance between the commercial and guardian moral imperatives thereby conserving and enhancing the heritage, culture and environment of the waterways
- To keep up the pressure for additional funding despite the additional sums recently granted, to allow us to improve the waterways in Scotland
- To fully achieve our potential as an organisation, and the potential of the waterways, we shall need to be innovative, dynamic and efficient.