



British Waterways

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This note gives the present and previous governments' policies towards British Waterways; including future plans for its mutualisation.

Water has been used for transport since primitive times - for carrying goods and ferrying people. The great age of canal building in Britain really started with the construction of the Bridgewater Canal, completed in 1776. A network of canals soon joined city to city and countryside to town. From 1760 to 1840, the transport arteries of the nation were constructed; at its greatest extent the inland waterway network stretched to over 5,000 miles and carried 30 million tonnes of goods and raw materials across Britain every year.

The Inland Waterways Association (IWA) was founded in 1946. The waterways entered public ownership in 1948 under the provisions of the *Transport Act 1947*. Waterways declined in this period and by the late 1960s the network had shrunk to 2,775 miles and many canals were abandoned, filled in, or severed by new motorways. The *Transport Act 1962* created the British Waterways Board to operate the 2,000-mile inland waterway network and its associated docks and land. Later, the *Transport Act 1968* gave first official recognition to the value of the inland waterways for recreation.

Responsibility for most of the inland waterways in England and Wales is vested in either British Waterways (BW) or the Environment Agency (EA). There are approximately 3,700 miles of actually or potentially navigable waterways in Great Britain, of which BW is responsible for approximately 2,200. A map of those waterways is available to view on the [Association of Inland Navigation Authorities' website](#).

Further information on waterways and maritime matters can be found on the [Shipping Topical Page](#) of the Parliament website.

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1 Background: British Waterways 1962-1999

[British Waterways \(BW\)](#) is a statutory body established in 1963 on the break-up of the British Transport Commission (BTC) to manage the inland waterways, docks and estates which had previously been the responsibility of the BTC. Its main functions were defined by the [Transport Act 1962](#) and [Transport Act 1968](#). The latter classifies BW's waterways into three categories: commercial, cruising, and the remainder, and imposes a duty to make those in the first two categories generally available for navigation. BW is required to operate commercially but receives grant from the Government to make up the difference between its income and the total cost of its operations. BW is responsible for around 2,200 miles of canal and river navigations in England, Wales and Scotland:¹

¹ IWAAC, *Britain's inland waterways: an undervalued asset*, March 1996, p12

Total length of waterways in Great Britain and Northern Ireland <i>(All figures are approximate)</i>						
Organisation	Totals		Fully navigable		Un-navigable	
	km	miles	km	miles	km	miles
Managed waterways:						
<i>British Waterways</i>	3,220	2,000	2,790	1,735	430	265
<i>National Rivers Authority</i>	1,000	620	880	545	120	75
<i>Broads Authority</i>	200	125	160	100	40	25
<i>Dept. of Agriculture (N. Ireland)</i>	280	175	185	115	95	60
<i>Other</i>	1,300	805	885	550	415	255
Managed total:	6,000	3,725	4,900	3,045	1,100	680
Abandoned waterways:						
<i>(i.e. those with no single owner or no controlling authority)</i>						
<i>Canals</i>	1,400	875	0	0	1,400	875
<i>Rivers</i>	900	560	100	65	800	495
Total for all 'inland waterways':	8,300	5,160	5,000	3,110	3,300	2,050
Estuaries and associated tidal rivers:	600	370	600	370	0	0
Totals:	8,900	5,530	5,600	3,480	3,300	2,050

In 1984 BW agreed a 'statement of objectives' with the Department of the Environment. These remain up to date and no revised objectives have been published since. The general introduction provides a summary of the agreement:

Consistent with its statutory obligations and powers, the [British Waterways] Board should, so far as practicable, run its affairs on a commercial basis.

In promoting the fullest practicable use of the waterways for leisure, recreation and amenity, and for freight transport where appropriate, the Board should aim (a) to achieve value for money in all its activities including the maintenance of waterways, (b) to secure an adequate rate of return on specific activities and (c) consistently with its other objectives to increase opportunities for private sector participation in the business for example through direct investment, joint ventures, asset sales, contracting out and hiving off. By these means the Board's demands on Exchequer funds should be kept to a minimum.

The Board should comply with financial targets and external financing limits set by the Secretary of State and should achieve performance aims, agreed with the Secretary of State, for manpower and other operating costs for each part of the Board's activities. Proposals by the Board for capital investment should be subject to proper investment appraisal as in the Department's guidelines dated 25 May 1983. Those outside the delegated limits agreed from time to time between the Secretary of State and the Board should be submitted for approval. The currently agreed limit for this is £200,000.²

The major changes to BW before 2000 were set out in the 1999 document [Unlocking the potential: a new future for British Waterways](#). The Minister at the time, Michael Meacher, summarised the document in a parliamentary answer given in March 1999:

² British Waterways, *Statement of objectives agreed with the Department of the Environment*, 31 July 1984, paras 1-3

The key elements of the package are:

- British Waterways will remain in the public sector as a public corporation, charged with the stewardship of an important national asset;
- Improved funding. An extra £8 million per annum, to enable British Waterways to eliminate the serious maintenance backlog over a timescale of seven years and subject to the achievement of challenging performance targets;
- Phasing out debt and increased flexibility in cash flow management. British Waterways will be relieved of the burden of refinancing old loans as they mature and will benefit from new financial flexibility at the end of each financial year;
- Three proposed partnerships with the private sector (property, water transfer and maintenance), which are currently being worked up with the Treasury Private Finance Taskforce;
- Partnerships with the public sector. British Waterways will build on and broaden its partnerships with local authorities and other public sector organisations, including the new Regional Development Agencies;
- A membership scheme: to get British Waterways closer to all people who use its waterways. There are a number of options for a membership scheme and these will be the subject of a consultation exercise by British Waterways. The consultation will include the suggestion that a seat on the British Waterways Board might eventually be offered to the membership;
- A Framework Document setting new objectives for British Waterways, clarifying its relationship with the Department, and confirming British Waterways' contribution to sustainable development and to Government policies on transport (including freight), regeneration, heritage, conservation and leisure; and
- Improved openness and accountability. British Waterways will build on last year's publication of a forward plan at a public meeting by publishing more detailed information about its activities and plans (...)

The package demonstrates the Government's commitment to a successful future for British Waterways. The additional investment, together with the public and private partnerships, offer exciting opportunities for British Waterways to unlock the potential, modernise its network and provide a system of historic waterways worthy of the new millennium.³

1.1 Structure

In 1988 BW embarked on a major internal reorganisation. A 1989 report by the Environment Select Committee contrasted the old and new structures:

Under the previous structure, the Board's activities were managed as a country-wide operation, with, for example, all engineering and maintenance being carried out under the control of the Director of Engineering. The new structure entails a key role for six Regional Managers, who report direct to the Chief Executive. To pursue the example of engineering and maintenance, this means that the Director of Engineering will be responsible for the adequate provision of qualified staff, professional and technical

³ [HC Deb 2 March 1999, cc620-621W](#)

standards, training and safety, while the Regional Managers will be responsible for deciding maintenance priorities within their regions and ensuring that they are implemented.⁴

The Committee stated that the reorganisation had met with “mixed reactions”. While the [Inland Waterways Amenity Advisory Council \(IWAAC\)](#) and the [Inland Waterways Association \(IWA\)](#) welcomed the changes as “long overdue”, others were more doubtful. The Transport and General Workers Union (TGWU)⁵ pointed out that the reorganisation should be regarded as “a streamlining exercise and not as an opportunity to add further supervisory tiers at the expense of cost-effectiveness”.⁶ In its conclusions, the Committee judged that:

...the new management structure of the BWB [British Waterways Board] appears, in principle, to be sound, provided that regional operations are conducted within a strong overall policy and budgetary framework laid down by the Board. Delegation of authority for action does not relieve the Board and headquarters executives of their ultimate responsibilities.⁷

The Conservative Government stated in its response to the Committee’s conclusion that it welcomed the endorsement of the new management structure and confirmed that “as a direct corollary of reorganisation on a regional basis strong policy and budgetary controls should be set at the centre”. As to the Board’s responsibilities, it said:

The Board has action in hand to implement central control through approval of annual budgets and monitoring of expenditure on the basis of monthly returns; the setting of business strategies and priorities for key areas such as property and leisure and tourism; a corporate safety policy; and policy guidelines and standards for property management, engineering inspection and maintenance, water quality, conservation and customer service, with monitoring through annual reports. The Board also regularly reviews performance in each main business and activity area.⁸

Labour’s 1999 framework document set out further changes to management supervision of BW and how it should operate:

British Waterways is a public corporation sponsored by the Department of the Environment, Transport and the Regions. In law the Board is fully responsible for all of British Waterways’ activities. The members of the Board are appointed by the Secretary of State and are responsible for all aspects of British Waterways’ organisation and performance; the Chair has a particular responsibility for the proper discharge by the Board of its collective role. Ministers expect the Board to ensure that British Waterways fulfils its statutory duties, in the light of such guidance and directions as they may give it, and to ensure propriety, regularity, economy, efficiency and effectiveness in the operation of the organisation.

In consultation with the Chair, the Secretary of State will appoint non-executive directors to the Board who, by their stature, background and breadth of oversight and overall experience, can make direct and relevant contributions to the management of British Waterways.

British Waterways’ Code of Practice for its Board members is based on the Government’s general Code of Best Practice for Board Members of Public Bodies.

⁴ Environment Committee, [British Waterways Board](#) (fifth report of session 1988-89), 237, 26 July 1989, para 12

⁵ now part of [Unite – the Union](#)

⁶ op cit., [British Waterways Board](#), paras 13-14

⁷ [ibid.](#), para 15

⁸ [British Waterways Board: Government Response](#), Cm 967, February 1990, para 4

Board Members are required, by the terms of their appointment, to abide by the requirements of British Waterways' Code.⁹

1.2 Public sector status

BW is in a particularly dominant position because of the length of waterway it controls. In a 1996 report, however, the Inland Waterways Amenity Advisory Council (IWAAC) put forward another reason for BW's dominance, that it is alone in having nationalised industry status. This came about because it inherited its waterways, primarily canal navigations previously owned by railways companies, from the British Transport Commission.¹⁰

In *Unlocking the potential* the Department for the Environment, Transport and the Regions (DETR)¹¹ announced that although BW would remain in the public sector, it would no longer be a nationalised industry with effect from 1 April 1998:

British Waterways will remain in the public sector as a public corporation. The Government considers this to be the right place for an organisation charged with the care of a valuable part of the national heritage and dependent on public funds for a substantial part of its income. By retaining British Waterways in the public sector, the Government can ensure proper accountability and control over the public funds provided for British Waterways and the assets in its care (...)

British Waterways' status as a nationalised industry, however, is no longer appropriate. For many years British Waterways' trading activities have been a small and declining part of its operations. Over the last ten years in particular its leisure, amenity and property activities have expanded rapidly. It has little in common with the trading organisations associated with nationalised industry status. Abandoning that status (from 1 April 1998) allows British Waterways to emphasise its role as the custodian of a valuable national asset with activities which are focused on leisure, tourism, heritage and regeneration.¹²

1.3 Funding

BW is able to levy direct charges in respect of its property, and from certain of its leisure users such as boaters and from its commercial users, including those to whom it supplies water. It is unable, however, to levy direct charges for protecting the waterway environment and heritage or to charge most of those who use the waterway network for informal leisure, as a drainage facility, or whose property is protected from flooding. In 1999 the cost of maintaining the network for these purposes was estimated at £60 million a year. The Monopolies and Mergers Commission,¹³ which produced a report on British Waterways in 1994, said that the need for support by BW arose from the high cost of meeting its extensive public service obligations:

It has to maintain a 200-year-old canal system in a safe condition. This outstanding heritage from the first industrial revolution has many fine listed structures which are expensive to keep in good repair. Indeed the whole canal network is part of the nation's heritage and many canals are themselves listed. BW also has extensive environmental responsibilities, including over 60 sites of special scientific interest

⁹ DETR, *Unlocking the potential: a new future for British Waterways*, February 1999, paras 3.1-3.3 [DP 99/370]

¹⁰ op cit., *Britain's inland waterways: an undervalued asset*, p13; the BTC was established by the *Transport Act 1947* and came into being on 1 January 1948, it was essentially the nationalised holding company for public transport undertakings

¹¹ the [Department for the Environment, Food and Rural Affairs](#) now has responsibility for inland waterways

¹² op cit., *Unlocking the potential*, p1

¹³ now the [Competition Commission](#)

(SSSI) and hundreds of conservation areas and areas of special landscape character.¹⁴

The 1989 report of the Environment Committee reiterated the need for public funding:

Given the history of the system, it is unlikely that the Board can ever run its affairs on a wholly commercial basis. Much of the value of the canal network to the community at large lies in its land drainage functions and unquantifiable environmental benefits. It is therefore inevitable that the BWB will continue to rely on public funds for a significant proportion of its annual turnover.¹⁵

By 1996, however, a report by IWAAC was questioning aspects of the grant funding regime for BW, for instance why the grant came from 'national sources'; whether the basis upon which was paid was the right one; and whether the downward trend in the level of grant was sustainable.¹⁶

The Labour Government announced its plans for the future funding of BW in its 1999 document *Unlocking the potential*. It stated that:

Total income has been insufficient to meet the needs of the canal network and a backlog of maintenance, currently estimated at £260 million has built up. Of this, some £90 million is for work that poses a serious public safety risk. The Government considers that this backlog of safety-related maintenance is unacceptable.¹⁷

Based on the funds available to BW, the government calculated that it would take 15 years to eliminate the backlog. In order to reduce this timeframe to seven years, the Government allocated an additional £8 million per annum to BW in the 1998 Comprehensive Spending Review:

This additional grant demonstrates the Government's determination to reverse the years of inadequate funding, and its full support for the Board's aim of eliminating the backlog over seven years. It will enable British Waterways to halve the backlog by the end of the comprehensive spending review period in 2002.¹⁸

1.4 Accountability

As well as being governed by the normal accounting, employment, environmental, planning and safety legislation applicable to all modern organisation, BW is specifically governed by many of the original canal enabling Acts and a number of more recent Acts of Parliament. Its sponsoring government departments are Defra and the Scottish Enterprise, Development and Lifelong Learning Department; BW also liases with the Department for Economic Development and Transport in Wales. Funding is agreed against performance standards and targets on a rolling three-year basis.¹⁹

The 1984 agreement with the Department of the Environment set out BW's obligations to users. It stated:

¹⁴ Monopolies and Mergers Commission, *British Waterways Board: A report on the service provided by the Board*, Cm 2431, January 1994

¹⁵ op cit., *British Waterways Board*, para 30

¹⁶ op cit., *Britain's inland waterways: an undervalued asset*, p38

¹⁷ op cit., *Unlocking the potential*, p2

¹⁸ ibid., p2

¹⁹ BW, *Our plan for the future 2002-2006*, p6

The Board should consult waterways users and others affected by the Board's activities about their needs and about the Board's policies. On matters affecting leisure, recreation and amenity the Board should liaise closely with the Inland Waterways Amenity Advisory Council, making use of the Council's links with user organisations; and, in so far as practicable, consulting the Council in advance of decisions upon proposals of significant interest to them.²⁰

This wording was included in BW's Customer Charter in 1993. BW has since replaced the Charter with customer service standards. These are currently set out on the BW website.²¹

2 Waterways for Tomorrow, 2000

In June 2000 the Labour Government published *Waterways for tomorrow*, a daughter document to the 1998 transport White Paper *A new deal for transport*. *Waterways for tomorrow* addressed the issue of 'a new British Waterways' and expanded on the agenda set out in *Unlocking the potential* in terms of public-private partnerships, property, water transfer, maintenance, telecommunications and partnership with people.²² It also set out what BW had achieved to date against the agenda set out in *Unlocking the potential*:

British Waterways has developed its own strategy, building on its new framework of aims and objectives described in *Unlocking the potential*. It is pursuing its tasks enthusiastically and imaginatively. It is drawing up in consultation with users a new set of standards for the operation and maintenance of its waterways. And it is giving priority to tackling the maintenance backlog. We support its aim to eliminate the backlog as quickly as possible.²³

The Environment, Transport and Regional Affairs Committee held an enquiry to determine whether the objectives outlined in *Waterways for Tomorrow* were appropriate and whether "the structures in place were adequate to achieve a balance of uses". The Committee's report was published in March 2001.²⁴ The two main issues that concerned the Committee were BW's financial framework and its role in maintaining the inland waterways.

The Committee criticised how BW applied Treasury guidelines to its project appraisals following remarks to the Committee by groups such as Regeneration for Heritage about projects at Sowerby Bridge and Wakefield:

British Waterways ... claim[ed] that it had concerns regarding the viability of the Wakefield proposals and point[ed] out that it has an excellent track record in establishing and maintaining partnerships to deliver sustainable development ... While we do not wish to pronounce on individual cases, we are worried that British Waterways at times interprets its brief in a narrowly commercial ways and that the flexibility it claims as a policy has not been put into practice in all cases. We therefore recommend that British Waterways exercise more discretion in applying Treasury Guidelines to its project appraisals and that it formally adopt a policy whereby specified rates of return are applied more flexibly to heritage and other projects in the public good (...)

In addition, the Government needs to make it clearer that "8 per cent is an indicative return". We therefore recommend that the Treasury communicate to British Waterways and other bodies that the standard rate of return of 8 per cent does not

²⁰ Statement of objectives agreed with the Department of the Environment, para 11

²¹ BW, *Customer Service Standards*

²² DETR, *Waterways for tomorrow*, June 2000, pp20-24

²³ *ibid.*, p20

²⁴ ETRA Committee, *Inland Waterways* (fourth report of session 2000-01), HC 317, 7 March 2001

have to be achieved by those projects where other significant wider public benefits, including the conservation of heritage buildings, will accrue (...)

Another constraint on British Waterways' activities is the set of rules related to borrowing. Section 19 of the *Transport Act 1962* makes provision for British Waterways to borrow finance from the National Loans Fund. However, in practice British Waterways is discouraged from doing so by the Treasury. The organisation is not allowed to borrow money on commercial markets and, as a result, funds its investments through the proceeds of sales of assets ... We recommend that British Waterways be allowed to raise capital on the commercial markets to finance acquisitions and developments with a medium to long term probability of reducing annual revenue funding through DETR. Such borrowing should be subject to Ministerial approval for loans above a designated threshold.²⁵

The government rejected the proposal that BW should be able to raise capital in the commercial markets in its response to the Committee, published in May 2001:

Private sector capital is normally more expensive than finance raised directly by Government. Therefore, on value for money grounds, borrowing should normally be transacted through the National Loans Fund. British Waterways is also taking forward PPPs which will give it access to extra private sector finance.²⁶

Turning to BW's role in maintaining the inland waterways, the Committee was keen to find a way to rationalise the "confusingly large number of individuals and organisations" with responsibility for owning and managing the waterways. In particular, some witnesses were concerned about the division of responsibility between the two largest navigation authorities – BW and the Environment Agency (EA). In its written memorandum to the Committee, BW made "an overt bid to take over responsibility for all waterways":

Waterways for Tomorrow announced the Government's intention to examine the Environment Agency's navigation responsibilities as part of the DETR's quinquennial review of the Agency which is just starting. We believe that the true potential of the waterways can best be realised by the transfer of the Environment Agency's navigations to British Waterways. British Waterways are best placed to take the integrated approach to the sustainable development of canals and rivers that *Waterways for Tomorrow* envisages.²⁷

The Committee, however, rejected this and stated in its conclusions that "the navigation responsibility for waterways should remain as it is and that the Government should ... make it clear that this arrangement will stand for some years to come".²⁸ The Committee also recommended that a 'joint board' comprised of BW, the EA and the Broads Authority should be established to provide a clear structure for managing the waterways.²⁹ In its response, the Government stated that it did not believe a new joint board was necessary as [AINA \(Association of Inland Navigation Authorities\)](#) already co-ordinated and promoted best practice amongst navigation authorities.³⁰

²⁵ *ibid.*, paras 29-31

²⁶ *Inland Waterways: Government response*, Cm 5149, May 2001, para 23

²⁷ *op cit.*, *Inland Waterways*, memorandum IW52, para 70

²⁸ *ibid.*, para 55

²⁹ *ibid.*, para 56

³⁰ *ibid.*, paras 37-40

3 Defra policy review, 2004-05

In April 2004 Defra announced a consultation to consider how well British Waterways was operating within the framework of *Waterways for Tomorrow* and to advise what changes were needed to enable it to improve its ability to deliver government policies.³¹ The main issues that emerged from the consultation responses were:

1. The need to clarify the wide range of British Waterways' objectives and to ensure balance between them. Respondents from the commercial and recreation/voluntary groups raised concerns that British Waterways had focused too much on its commercial aims to the detriment of wider public policy aims.
2. Commercial freight operators were particularly concerned that the objective to facilitate waterborne freight transport was not given sufficient priority. Some suggested this was attributable to outdated legislation containing statutory maintenance obligations.
3. Three (commercial group) respondents expressed concern about BW's entry into the marinas' market and the issues it raised for competition.
4. The chief concern among recreation/voluntary groups was British Waterways' communication and consultation processes with stakeholders.
5. A variety of respondents raised concerns about the level of funding and the form it took for British Waterways. They wished to see it kept at an adequate level and to ensure long term funding to ensure a well-maintained network.³²

The review document was published on 24 March 2005. In a statement to the House the Minister, Alun Michael, said:

The report confirms the prime purpose of British Waterways is to deliver public benefits and promote social inclusion. It provides a firm foundation for developing these objectives further as well as proposing a framework within which British Waterways can work towards its aim of become largely self sufficient.

Defra will now work with the Scottish Executive and British Waterways to consider how best to implement the review's recommendations and formalise a development plan for taking them forward.³³

The review looked at BW's performance between 1999 and 2004. It found that BW had been successful in the following areas:

- A step change in the condition, management and reliability of its inland waterway infrastructure, and the elimination of the safety backlog
- Completion of six major restoration schemes, costing £177m, creating over 200 miles of new navigation and associated urban and rural regeneration, including effective delivery of major new developments in Scotland such as the Millennium Link including the Falkirk Wheel

³¹ Defra, *Review of British Waterways*, 21 April 2004

³² InHouse Policy Consultancy, *Review of British Waterways: Analysis of Responses to Consultation*, March 2005, p4

³³ [HC Deb 24 March 2005, 86WS](#)

- Raising the profile and public awareness of waterways and realising their potential in education, leisure and recreation
- Fully embracing the concept of partnership working, including:
 1. Private Public Partnerships (PPPs) in Isis and Watergrid
 2. Site specific PPPs for redevelopment in Edinburgh and London
 3. With the voluntary sector for fund raising, education and community services
 4. Partnership contracts with major contractors
- Significant growth in directly earned income (30% in the last two years) by
 1. Market pricing of moorings and licences
 2. Innovation, such as in Easynet fibre optics under towpaths
 3. Professional management of its property portfolio³⁴

Further, in terms of efficiency and value for money:

British Waterways was clear that its main focus over the review period had been to eliminate the safety-related maintenance backlog. Efficiency savings were achieved by the development of national contracts and term omnibus arrangements [three-year partnership contracts with major civil engineering contractors on the basis of four regions] for major works, with savings reinvested in the arrears programme. There had been change in the later years with the implementation of the substantial reorganisation of the business structure including integrated management information systems; shared service centre initiatives and outsourcing e.g. in IT systems support.³⁵

The review concluded that there was no persuasive argument to change British Waterways' status as a public corporation, as "this remained a suitable framework within which to meet the anticipated challenges". It did, however, recommend that Defra should pursue an 'appropriate increase' in British Waterways' overdraft facility and, subject to its financial position, National Loan Fund (NLF) borrowing limit to facilitate its future plans. This will require secondary legislation. The review also supported, in principle, extending British Waterways' remit based on "making best use of its core competences and expertise". In particular, it recommended that the proposal to extend British Waterways' powers to allow investment near to other waterways should be pursued. This would again require secondary legislation.³⁶

In summary, the review recommended:

- New rules and guidelines to increase clarity of purpose and measurement of performance including new policy objectives for British Waterways;
- Setting of key performance indicators;
- Long-term funding on a contractual basis;

³⁴ InHouse Policy Consultancy, *Policy Review of British Waterways*, March 2005, p18

³⁵ *ibid.*, p31

³⁶ *ibid.*, pp40-42

- Wider investment powers to allow investment near to other waterways; and
- Cross border financial flows to be better identified and monitored.³⁷

4 Property portfolio

In his 2009 Budget speech, the then Chancellor of the Exchequer, Alistair Darling, stated that government departments would be expected to make efficiency savings.³⁸ In pursuance of that, the final report of the Operational Efficiency Programme was published on 21 April. It went into more detail about back-office efficiency savings, via IT, property management etc. and included a few specific examples of how money could be saved in transport-related areas, one of which was British Waterways' property portfolio:

British Waterways is a public corporation which owns and maintains over 2,000 miles of canals, rivers and supporting infrastructure in England, Wales and Scotland. It owns a significant land and property portfolio alongside the waterways which assists British Waterways to deliver wider public benefits and urban regeneration. The study considered the parts of this portfolio in England and Wales.

British Waterways has achieved significant growth on its canal-side property portfolio. Under current economic conditions it is important British Waterways remains focussed on maximising gains from its property while also delivering excellence in management of the waterways. This will be enhanced by managing the canal-side property portfolio through a dedicated, wholly-owned subsidiary of British Waterways. The change will also increase clarity of British Waterways' current funding model. British Waterways and the Department for Environment, Food and Rural Affairs (Defra) will work closely with HM Treasury and Shareholder Executive to take forward this change, and on the company's long-term strategy which will consider the appropriate business model to provide a sustainable future for the waterways and ensure delivery of a wide range of public benefits.³⁹

Later in 2009 the Labour Government published its asset portfolio which set out its future plans for a number of government-run and -owned entities, including BW's property portfolio. It stated:

BW is constrained in its ability to raise finance. Its total borrowings are subject to a statutory limit of £35 million and therefore funds for property investments principally come from proceeds generated from other investments.

At Budget 2009, it was announced that BW would transfer its property activities (including joint ventures) into a wholly-owned property subsidiary – in order to ensure clear separation of, and focus on, both maximising gains from its property and best management of the waterways.

This process is being taken forward by BW in consultation with HM Treasury, the Shareholder Executive and Defra. However, the Government recognises that there may be benefits in considering alternative structures for BW's business as a whole, including its property portfolio. We will therefore consider alternative models for the business as a whole, such as mutual or third sector structures. As part of any such

³⁷ Defra press notice, "[British Waterways has turned a liability into a much-loved national asset...](#)", 24 March 2005

³⁸ [HC Deb 22 April 2009, c245](#)

³⁹ HM Treasury, [Operational Efficiency Programme: final report](#), April 2009, p42

future structure for BW, therefore, there may be opportunities for the private sector to invest in the portfolio.⁴⁰

It is now unclear whether the property portfolio will be sold off separately or whether it will remain part of BW when it is mutualised (see below).

5 Funding

5.1 Budget cut, 2006

In a speech to BW's 2006 annual general meeting, the then Chief Executive, Robin Evans, set out its financial position:

In December 2005 our grant from Defra was £62.6 million and in normal circumstances, we would have expected that grant to remain at that level or increase in line with inflation. The reality is that we have had a 12½ % cut this year and are under threat for it to rise to 15%. Most of this was imposed well into the financial year when a very large part of our budget was committed. In effect therefore the cuts are even deeper probably representing over 20% of available spend. As far as 07/08 is concerned, Defra is not able to confirm what our grant will be. All the indications are that it will remain at this lower level of £55.4 million.

You will probably have heard that the government is undertaking what it calls a Comprehensive Spending Review that reallocates money to all the government departments for the 3 year period. We are just about to enter negotiations for this Spending Review and we have been told to plan on receiving £54 million the first year and then reducing by 5% each year during the 3 year period.

The then Secretary of State, David Miliband, formally notified the BW Board of its revised funding allocation on 27 July 2006, following an in-year review of Defra's budgets.⁴¹ It was subsequently announced on 9 October that BW was planning to cut 180 jobs.⁴² The government argued that "the budget cuts made to British Waterways this year pale into insignificance, however, when set against its overall increase in funding in recent years".⁴³ BW was reported to have blamed Defra's mismanagement of the [Single Payment Scheme](#) for farmers for the cuts in its budget.⁴⁴

The government gave further details of its position in response to a petition from the Constituents of South West Bedfordshire and others on 24 May 2007:

The Government agrees that Britain's inland waterways are a unique national asset that make an important contribution to the quality of life for millions of our citizens.

2006/2007 has been a difficult and challenging year for the Department, one which placed additional budgetary pressures on it that were not provided for in its budget as set by the Spending Review 2004. It managed those pressures by close scrutiny of its budgets for the whole of the Defra family.

In the case of British Waterways, this meant revised funding of £55.5m in 2006/07, a reduction of £3.9m in its initial allocation of £59.4m. Despite continuing financial constraints, its grant for 2007/8 has been held at this level. The level of grant for the

⁴⁰ HMG, *Operational Efficiency Programme: Asset Portfolio*, 2009, pp6-7

⁴¹ [HC Deb 2 November 2006, c572W](#)

⁴² BW press notice, "[British Waterways announced plans for job losses](#)", 9 October 2006

⁴³ [HC Deb 2 November 2006, cc453-454](#)

⁴⁴ "[British Waterways to axe 180 jobs](#)", *The Independent*, 10 October 2006

next five years has not been decided and will depend on the outcome of the CSR07 settlement; the reference to a £60m cut is therefore wrong.

The Government does not accept that these cuts will have a 'devastating effect' on the waterways. The context is that British Waterways has received significant additional resources over the past seven years. The Government provided an additional £42 million between 1999 and 2004 to enable it to reduce its safety maintenance backlog. A further tranche of £30 million was spread over the financial years 2001/02 to 2003/04 for infrastructure improvements to bring the network up to a sufficiently reliable standard to attract new business and opportunities on to the waterways. Government has provided £524m in funding for British Waterways since 2000, of which £452m was for waterways in England and Wales. It is also worth noting that British Waterways has to date received £8.9m more in grant from Government as a whole since 2002 than they were then projecting. And over the period 2002-2012 they project that, even on an assumed CSR settlement of 5% real cuts p.a., total revenues would be £30.1m higher than they had assumed in 2002.

The Government will continue to support British Waterways' aim of working towards greater self-sufficiency in the longer term. British Waterways has been invited to work up proposals to change its legislative framework in order to provide it with greater freedoms for investment opportunities.

The Environment Agency's funding was reduced by £28.1m in 2006/07 from the budget originally indicated in the Spending Review 2004. The table below shows how this cut was split between the Environment Agency's various ring-fenced budgets:

Function	Cumulative cut (£m)	Reduced budget (£m)
Environment protection	12.5	126.9
Flood risk management	14.9	419.2
Fisheries	0.4	5.9
Business resource and efficiency in waste programme (BREW)	0.3	4.5

Although the expected 2006/07 funding for the Agency's Environment Protection function (which includes navigation) was reduced, the total Government funding they received for this function was still around 20% higher in nominal terms than 2000/2001.

Managing the budget reductions to minimise their impacts is a matter for the Environment Agency Board. After consideration, the Environment Agency decided to reduce and delay a range of projects across its business areas. This included reducing its operational spend on navigation by £400k. No cut was made to its capital budget and the Agency is on course to have spent an additional £30m in the SR2004 period on reducing the backlog of works to its navigation structure.

Defra regrets the need to make an in year cut in 2006/7 which we acknowledge was disruptive. Funding will inevitably continue to be tight for Defra over the next few years. The outcome of the Comprehensive Spending Review for the period 2008/09 to 2010/11 will inform the level of funding for inland waterways.⁴⁵

⁴⁵ [Supplement to the votes and proceedings](#), 8 June 2007

5.2 Inquires by the EFRA Committee, 2006-08

In December 2006 the Environment, Food and Rural Affairs Committee [announced an inquiry](#) into British Waterways, with particular emphasis on, *inter alia*, the financial framework of British Waterways and the impact of changes in Defra's budget. The Committee published its report on 31 July 2007. In general, the Committee commended the work of BW and was concerned about a possible budget cut, it had not got to the bottom of the conflicting accounts given by BW and the department about the state of its finances and asked the National Audit Office (NAO) for an opinion. The Committee also expressed concern at the strained relationship between BW and Defra, though it hoped that a change in personnel at the department might be an opportunity for a fresh start. Overall, it thought that BW should be given the necessary funds to continue its work, though it remained unsure about BW's 'aspiration towards self-sufficiency' and did not think that privatisation was a sensible option:

We commend the commitment of Government, British Waterways (BW) and individuals over the past decade to improving the waterways network, and their success in doing so. We firmly believe that the waterways network is a vital public asset, and that the Government has a responsibility to keep the network in good order. We are therefore extremely concerned at the implications of likely lower Defra grant levels in the Comprehensive Spending Review 2007 period, from 2008-09 to 2010-11, on BW's ability to maintain the waterways network to an acceptable standard. BW says a funding settlement in which its grant level reduced by five per cent in real terms would result in a £35 million under-spend on major works by the end of the three CSR years alone, and the network would not then be "fully fit-for-purpose". We recommend that BW and Defra work together closely to agree a CSR 07 settlement that ensures the long-term stability of the waterways network. We expect Defra to consider carefully BW's claim that additional capital funding will be necessary for each year of the CSR 07 period if its grant settlement continues to reduce in real terms. We would also welcome the National Audit Office's view on the correct interpretation of the conflicting accounts given by the Department and BW about BW's finances between 2002 and 2012.

Our inquiry has showed that relations between BW and its sponsor department in England and Wales, Defra, have been tense in recent months. The former Inland Waterways Minister strongly criticised BW in public, on a number of grounds. Communication between Defra and BW must be improved. BW relies on Government for much of its funding, and therefore has a responsibility to ensure important business decisions and complex terms, concepts and models are explained clearly to its sponsor Department. The Department must also ensure those officials who deal with BW on a regular basis have a thorough understanding of these concepts, so they can brief ministers accordingly. A new minister is now in charge of BW; we believe this is the perfect opportunity for a fresh start in this relationship. The Department and BW must now both work to improve relations in the final negotiating period of the CSR process and beyond.

We consider it imperative that BW is granted every opportunity to deliver strategies that can help generate more of its own income. We recommend that Government fully support, and provide assistance to, BW in ensuring it achieves its ambitions to operate commercially on other waterways than those it owns or manages. Government should also grant BW an increased borrowing capability. We believe there is a strong case for providing BW with income gained from planning obligations under Section 106 of the Town and Country Planning Act—or from planning gain supplement, if introduced by Government—in respect of the increase in property prices realisable from waterside developments. We fully support BW's desire for a longer-term funding contract with Government to provide greater stability to the waterways network, and remind

Government that this was recommended in the Policy Review of 2004-05. Government should ensure such a contract is agreed sooner rather than later. We believe there is a strong case that other Government departments—such as the Department for Culture, Media and Sport, the Department for Transport and the Department for Communities and Local Government—should make a direct contribution to BW's funding, to reflect the contribution BW makes to the agendas of those departments.

Much controversy has surrounded BW's aim to become "largely self-sufficient". Our inquiry has showed that a lack of clarity exists about what exactly BW's ambition to become "largely self-sufficient" means. Both Government and BW need to provide much more detail about what this means in practice and produce a detailed plan about how it can be achieved.

We were extremely surprised to discover that privatisation was one of the options being considered by BW's ongoing strategic options review, and are disappointed we were not informed about this during our evidence sessions with BW. In our view, privatisation is not a serious option: the waterways network is a public asset providing wide benefits to society and some Government funding will always be necessary. It should be ruled out by the Government.⁴⁶

The government's response to the report was published in October 2007. On the key question of funding, it stated:

Defra faced considerable budgetary problems as a result of unfunded pressures in the 2006/07 financial year. BW, in line with other Defra delivery bodies, was asked to make a contribution to managing these Departmental pressures. Capital investment was unaffected. In-year cuts are not ideal and take place in context of tight government spending priorities. Ministers had meetings with the Chief Executives and Chairmen of the Defra network to explain and explore the position. Officials forewarned BW of budgetary pressures as part of their regular contact with BW and advised them of the exact cut as soon as they were able to do so.

BW and Defra are working closely together on planning for the CSR07 period. Defra's allocation to BW will be set in the context of the Department's overall priorities and financial resources. In preparation for the Department's CSR settlement which is expected in October, we are looking at scenarios for different spend levels and how impacts are to be managed in the context of options that BW is developing to inform a new long term strategy that will deliver a network that is sustainable and affordable. The strategy which will be agreed with Defra should set a transparent framework for BW decision making in the future. It will allow us to understand what a more self-sufficient network would look like over different time periods and how that might be financed so informing allocations to BW for the CSR period.

Defra and BW recognise the value of giving BW more security in its long term funding so that it can be more certain in its decision making, but the Department, like all other Government Departments, needs to retain some flexibility over budgets within what is likely to be a tight CSR settlement. We will continue to consider this issue in the context of the new strategy through which Defra and BW will agree key outcomes and performance indicators applicable to BW's business and maintenance of the network. These will be delivered through grant and through continuing investment of commercial income.⁴⁷

⁴⁶ EFRA Committee, *British Waterways* (seventh report of session 2006-07), HC 345, 31 July 2007, p3

⁴⁷ *Government response to the Committee's seventh report of session 2006-07* (fifth special report of session 2006-07), HC 1059, 17 October 2007, p3

In January 2008 the Committee published the [memorandum it had received from the NAO](#). This stated that for the period 2002-03 to 2010-11, BW would receive more income than it had anticipated in its 2002 plan, although the additional funds came in the period 2003-03 to 2006-07. The Committee reopened its BW enquiry in February 2008 and in July 2008 it published its follow up report. In terms of funding, it focused on the budget for 2008-09 and the Comprehensive Spending Review settlement. The CSR settlement would see an underspend on major works of almost ten per cent in both 2009-10 and 2010-11:

For 2008-09, Defra has given BW a grant of £56.624 million. BW says that the comparable figure for 2007-08 is £56.4m, so it has effectively received "flat cash". When the grant was announced British Waterways' Chief executive Robin Evans expressed satisfaction with the amount (...)

Last year BW told us that it expected a CSR settlement of RPI-5% (it assumed RPI to be 2.5%). It warned that a RPI-5% settlement would result in a £35 million under-spend on its major works by the end of the CSR 07 period (as shown in the table below): the under-spend would "accumulate to such a level that assets in poor condition with high consequence of failure will remain un-repaired".

BW told us that the CSR settlement, though "better than we anticipated", would not make much impact on closing the gap between the money required for major works and the money available. Construction industry inflation also added to the pressure on the major works programme, which ideally ought to be about £35 million but would in fact be around £30 million. BW would have to prioritise its spending on "works in the interests of safety", those assets in the poorest condition, and the 80% of waterways that constituted its "classified waterways" which they had a statutory obligation to maintain for public use. It would be unable to spend as much as it like on dredging, for example.⁴⁸

The Committee concluded that:

BW's grant under the CSR settlement is not enough to prevent continued underspending on its major works programme, but the CSR round was a tight one. In the circumstances a "flat cash" settlement for BW is acceptable. However, given the gains that have already been made in improving the condition of the canal network, Defra and BW should now jointly produce a strategy indicating how the improvements will be sustained against a background where current property market trends will make it more difficult for BW fully to realise its income potential from waterside developments.⁴⁹

The government's response to the Committee was published in October 2008. On the budget, it stated that BW would undertake a public consultation on its long term business strategy, including consideration of alternative funding mechanisms.⁵⁰

5.3 Budget for 2010-11

In August 2009 the 2010-11 grant in aid to BW was announced by Defra. A statement from BW, dated 30 July, explained the settlement as follows:

⁴⁸ EFRA Committee, [British Waterways: follow up](#) (eighth report of session 2007-08), HC 438, 1 July 2009, paras 27-29

⁴⁹ *ibid.*, para 34

⁵⁰ [Government response to the Committee's eighth report of session 2007-08](#) (fourth special report of session 2007-08), HC 1081, 15 October 2009, p2

BW grant funding from Defra for England and Wales has been confirmed for the year 2010/11. The base level of grant will be £52.848 (which includes £5m bought forward to 2008/09). This means that there is an effective year on year reduction in England and Wales of £4.6m (in 2009/10 the base level of grant is £57.448m).

All government departments were set spending reduction targets by Treasury to achieve in 2010/11 and this is BW's share of those government-wide reductions.

Government grant isn't the sole dictator of what is spent on the waterways. Efficiencies, third party funding and commercial income are as important in determining what is available to spend on the ground and what will be available to spend in 2010/11. If it transpires that, given all the variables, there is a net reduction of money available to spend in any given year, then this will impact on the work done on the waterways. Spend on maintenance, however, remains the priority.⁵¹

The press reported:

British Waterways is facing a cut of around £10M in the next financial year, it has been revealed. This year's available grant of £57.5M will be reduced to just £47.8M.

Grant funding from Defra for England and Wales has been confirmed for the year 2010/11. The base level of grant will be cut from £57.5M to £52.8M, with £5M of that already bought forward to 2008/09 as part of the government's fiscal stimulus plan. This means that there is an effective year on year reduction in England and Wales of £4.6M plus £5M, equating to a total cut of £9.6M.

The Inland Waterways Association said that British Waterways' existing grant already fails to address an ongoing deficit of between £20M-£30M each year just to maintain the system in a steady state of repair. The proposed cuts will exacerbate an already critical situation.

IWA is also concerned that similar cuts may be being planned within the Environment Agency, which also has navigation responsibilities on other inland waterways, and is also carrying a maintenance budget deficit.⁵²

The IWA subsequently launched a [campaign](#) on the funding issue.

6 The future of British Waterways, 2007-

6.1 Background, 2007-2010

In 2007 British Waterways – with the support of Defra – asked financial consultants KPMG for advice on how best to get more long-term financial security for the waterways via a Strategic Options Review.⁵³ The review provided external clarification of the financial challenges facing BW and evaluated options for addressing them. BW published the report in September 2008. It was [summarised](#) on the BW website as follows:

The business analysis undertaken by KPMG as part of their Review:

- Endorses the steady state model as "a reasonable starting position from which to consider BW's future funding requirements" (page 7);

⁵¹ *BW Statement on Defra grant allocation*, 30 July 2009

⁵² "British Waterways hit by funding cuts", *New Civil Engineer*, 3 August 2009

⁵³ BW, *British Waterways: Strategic Options Review*, 1 May 2007

- Observes that "BW has made significant steps to reduce the costs of maintaining the waterways and continues to look at ways of reducing the cost of delivery";
- Observes that BW "has adopted and implemented a strategy to develop commercial revenues to the limits of what is readily achievable under the current model" and that it "has done well to date from its property portfolio".

The Report nevertheless confirms the very significant funding challenges facing BW:

- "We estimate there is a funding gap [in England & Wales] of at least £29m per annum between the cost of maintaining the waterways and the funds available to BW" (page 7);
- In the longer term through additional regulatory costs, mandatory further reservoir work and differential construction cost inflation, that funding gap will increase;
- As a general proposition, a 'spend to save' strategy commonly applied to infrastructure such as roads, railways, water services etc does not provide the same opportunity to BW because it cannot replace its heritage assets;
- Current projected growth in commercial and non-commercial earned revenues under the existing business model, though considerable, will not close the funding gap. The projections used pre-date the present slowdown in the property markets.

The Report considers options for alternative institutional models that may provide scope for British Waterways to leverage its property portfolio, with a view to increasing revenues.

- On page 38 of the Report KPMG outline a possible alternative institutional model, designed to give BW the opportunity to increase commercial freedoms whilst retaining the waterways assets in long-term public ownership;
- However, KPMG conclude that "In our view there is no overriding short-term economic case for adopting the possible alternative model we have outlined. There is, however, a potential longer term opportunity to create value through increased property investment, potentially focussed on regeneration, which BW will not be able to fully exploit in its current framework" (page 44).
- In parallel, KPMG's analysis demonstrates that "Maintaining the status quo is quite risky in the medium term and may not be a stable long term solution to BW's relationship with central government" (page 43).⁵⁴

Particularly on the funding question, the BW press notice accompanying the report stated:

The review also backs up British Waterways' assessment of a financial gap between what should be spent on waterway infrastructure and services and the likely levels of commercial and national funding available. KPMG believe that the gap, relating to BW's network in England and Wales, could potentially be up to £29m per year. The review advises that a change in British Waterways' institutional status to give it greater borrowing powers could enable it to grow its long-term commercial revenues, but would incur considerable financial risk without, in the medium to long term, fully closing

⁵⁴ full report available on the BW website, see: KPMG, [British Waterways: Status options review](#), June 2008

the funding gap. British Waterways will be further considering KPMG's options for modernising the organisation's governance, ahead of next year's public consultation.⁵⁵

BW's 2008 annual meeting, held on 8 October 2008, included a panel discussion of the future of BW, including its funding. John Edmonds, Chair of IWAC, had the following to say:

John spoke about waterways funding - what he described as 'the only game in town' – and in particular, about a £30 million British Waterways funding gap (£50 million if an EA navigation funding gap plus “a bit of contingency funding is thrown in”). He acknowledged that profits from commercial operations will not bridge the gap and that there are competing pressures on the public purse, such as the credit crunch, fuel poverty, education and two wars. It was made clear that waterways would not be top of the public's list of priorities should Government find “£50 million a year ... down the back of some filing cabinet.”

According to John, waterways supporters should find a “better and smarter way” to argue the case for funding. “Campaigning in the traditional sense might prevent further cuts in waterways but ... 60,000 or even 100,000 boaters ... won't change the minds of ministers in the Treasury.”

Acknowledging that BW is “doing some of this now” he suggested that “proper research” would “establish exactly what the benefits of the waterways are.” The key, through “convincing research evidence,” is to monetise the wide ranging social, economic and environmental benefits of the waterways to society.

John suggested that the funding options should be fully explored, not just looking to national Government, but local government and any lessons from other countries or related operations.⁵⁶

In recent years, the question of whether to privatise BW has come up on occasion with organisations such as the IWA opposed to such a move⁵⁷ while think tanks, particularly on the right, are keen to examine the idea. John Blundell from the Institute of Economic Affairs [wrote in favour of privatising BW](#) in 2006 and, more recently, in April 2008 the Adam Smith Institute published a pamphlet on privatisation which had the following to say about BW:

Given British Waterway's current trading and financial position, any imminent privatization initiative seems improbable. But a five year plan to turn round its finances, so that it would then be in a position to undertake a public flotation, might well enable British Waterways to generate real interest amongst potential investors. In particular, its waterside assets would be expected to generate considerable value in the same way that ABP's [Associated British Ports] underlying value was boosted: it was subsequently bought by Admiral Acquisitions.

Valuation: If British Waterways were to be sold, the proceeds would be very dependent upon the £575 million tangible assets as revalued in the accounts. However, the sale should be able to raise over £400 million, although this figure would be heavily influenced by the future grants structure and any capital expenditure commitments.⁵⁸

⁵⁵ BW press notice, “[Waterways For The 21st Century](#)”, 10 September 2008

⁵⁶ a [full transcript](#) of the panel discussion is available on the BW website

⁵⁷ the IWA welcomed labour's proposed mutualisation as a means of avoiding any possible privatisation, see: IWA press notice, “[IWA Welcomes Government Statement on Mutualisation of British Waterways](#)”, 24 March 2010

⁵⁸ ASI, [Privatization – reviving the momentum](#), April 2008, p24

6.2 Proposals for mutualisation, 2010-

In December 2009 the Labour Government published details of its asset portfolio which promised to “consider alternative models for the [BW] business as a whole, such as mutual or third sector structures”.⁵⁹ This was followed in March 2010 by Labour’s document on reforming arm’s length bodies which indicated that it would mutualise BW.⁶⁰ However, nothing further happened before the General Election. The Conservative-Liberal Democrat Coalition Government that took power in May 2010 made no mention of the waterways in the [Coalition Agreement](#). However, on 21 June the new Waterways Minister, Richard Benyon, said that the government would continue to “look in detail at whether a third sector model would be appropriate for British Waterways, including the possible inclusion of the Environment Agency’s navigations as the other navigation authority grant aided by Government”.⁶¹

On 14 October 2010, following the announcement on public bodies, Defra stated that BW would move from being a Public Corporation to a charitable body within civil society called the Canal and River Trust (CRT) by April 2012.⁶² Thus far there have been two consultations on the plans, published in March and September 2011.⁶³

One of the key questions about the mutualisation is whether the funding for the new entity will be sufficient. A broad outline of the funding settlement was published in the March 2011 consultation document and the accompanying impact assessment. The exact details will be negotiated with the transitional trustees of the CRT, whose job it is to negotiate the requisite financial package to secure the charity’s long term future. The consultation makes two central points: that government grant as a proportion of BW’s income has reduced significantly over the years and BW’s commercial activities have taken off. It is projecting that these will increase in the future. The second point is that the new charity assumes both the assets and deficits that BW currently holds and will be able to generate income from the former.

In September 2011 Defra published a summary of responses to the consultation document. This mentioned that “some stated that sufficient, inflation-proofed and secure Government funding was essential to ensure that the network would not continue to deteriorate; others felt that the projections of voluntary income were optimistic in the light of the current economic climate”.⁶⁴ In response, Defra stated:

The purpose of the Impact Assessment was to provide the Government’s broad assessment of the benefits and costs of transferring the British Waterways network in England and Wales to a national charity, compared with a scenario in which the network remained within the public sector. It draws upon projections of the additional income that the charity might secure, but does not attempt to provide a business plan for the charity nor a detailed analysis of the financial sustainability of the network. The Government however remains committed to a sustainable future for the waterways and

⁵⁹ HMT, [Operational Efficiency Programme: Asset Portfolio](#), December 2009, pp6-7

⁶⁰ HM Treasury, [Reforming Arm’s Length Bodies](#), March 2010, p10; BW welcomed the idea, see: BW press notice, [“Government to mutualise British Waterways”](#), 24 March 2010

⁶¹ [HC Deb 21 June 2010, c4WS](#)

⁶² Defra press notice, [“Public bodies announcement”](#), 14 October 2010

⁶³ Defra, [Moving inland waterways into a new charity in England and Wales](#), 30 March 2011; and: [A supplementary consultation on certain aspects of the proposed Transfer Order for transferring the functions of British Waterways](#), 12 September 2011

⁶⁴ Defra, [Summary of responses to the consultation ‘A New Era for the Waterways’](#), September 2011, p13

ensuring that the charity has the best possible start. The Government funding contract will be negotiated with the charity's Transition Trustees, in the autumn.

On charitable income, BW's original charitable income projections, although based on market research conducted during the recession, remain hypothetical and the Impact Assessment recognises this by assuming, in its central case, that only 75% of these projections are realised. It also adopts an even more pessimistic 50% achievement in its sensitivity analysis. The key conclusion in the Impact Assessment, is that, in social cost-benefit terms, the charity will always bring a better outcome, other things being equal, than retention of the network in the public sector.⁶⁵

The relevant portion of the impact assessment states that if BW carried on as it is it would not be able to generate enough money to continuing maintaining the asset base; it also carries a pension deficit. Defra's view is that by moving to the new model the CRT will be able to generate more revenue, some of the duties currently on BW as part of the public sector could cease, and it has a stronger chance of being able to sustain investment in the waterways than is currently the case. Defra estimates that it could generate an extra £13 million per annum from the move to charitable status.

However, there is concern about the government funding package and whether it is adequate. The transitional trustees for BW/CRT published a statement of initial thoughts and decisions in October 2011. On the funding question, this states that the funding package agreed with government:

... is key to the success of CRT. There is no point setting up the charity with inadequate resources. We know what we need from government and we need to persuade them to increase their current offer of £39m per annum for 10 years to a level that ensures CRT is viable.

At the same time we must be realistic and pragmatic. We all believe the waterways need and deserve substantial extra funds, but this is not a time when government can be expected to find this level of extra funding. We should expect government to provide sufficient to secure the waterways for the future and ensure the infrastructure and operation does not fall below current standards. Using the new freedoms and opportunities the Trust presents will enable us, over time, to raise standards but we cannot promise transformation overnight.⁶⁶

We will know more once that funding agreement has been finalised.

⁶⁵ Ibid., p14

⁶⁶ CRT, *'First Decisions, Early Thoughts And Statements Of Intent': A Progress Report From The Transition Trustees*, October 2011, p5