



File

10 DOWNING STREET

From the Private Secretary

Note to be Recored

I discussed N Young's minute with him. I felt that he was going beyond the E(N1) discussion of March 1983. This saw only limited scope for selling off canals but emphasized disposal of other surplus assets and better use of remaining network.

He agreed to discuss issue with N Gos on two levels

(i) has to draft objectives to bring out spirit of E(N1) discussion more clearly

(ii) whether there is a case for reconsidering E(N1) conclusions and going for something more radical.

AT
10/4

MR TURNBULL

c Mr Redwood

BRITISH WATERWAYS BOARD - OBJECTIVES

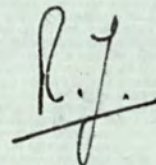
Ian Gow's letter of 30 March to E(NI) members is a poor attempt at defining objectives. Although in public expenditure terms this is a small issue (BWB runs on an EFL of around £40 million per annum) Waterways could be a troublesome environmental issue.

We recommend against announcing more than Leslie Young's appointment in May. At the same time, and in confidence, DoE should set as his prime task the preparation of a draft strategy which sets out:

- (a) what Board structure and appointments are needed;
- (b) how BWB's leisure waterways can best be privatised;
- (c) what the transport role of the BWB canals should be, and how private capital can be introduced;
- (d) what arrangements need to be made with Regional Water Authorities to preserve the land drainage functions of canals.

We suggest a first draft not later than 31 December 1984.

The reasoning behind our recommendations is set out in the Annex.



ROBERT YOUNG

BRITISH WATERWAYS BOARD

1. The background is that BWB is in steady receipt of about £40 million per annum of Exchequer support. Most of that goes on financing deficits of around £30 million per annum on a turnover of £15 million to £20 million (!). Annual investments of between £5 million and £10 million are made in the backlog of maintenance, which was assessed in 1982/83 at £120-150 million. On the face of it, BWB's worst problem is the 340 miles of designated commercial waterways, on which it lost £12 million in 1981; it lost a further £12 million on 1100 miles of designated cruising waterways; and £4 million on the remainder of 600 miles.

2. DoE's background paper to E(NI) in March 1983 admitted:

"the relationship between central Government and BWB has not been easy in the last 10 years ... the senior management is generally not of high quality ... the Board are reluctant to provide the kind of information Departments get from grant in aid bodies, and rest on the traditional arm's length relationship of an orthodox nationalised industry".

3. E(NI) conclusions about policy for BWB were that it should:

- operate as commercially as possible;
- privatise as much as possible;
- operate principally as a leisure industry;
- undertake a commercial appraisal of its freight operations.

There was correspondence either side of E(NI)'s meeting about the importance of bringing in a new Chairman with leisure industry

experience, and of supporting him with a Chief Executive of similar background. That has clearly not happened. The composition of the current Board (see attachment) is unsatisfactory.

4. Against 10 years of difficult BWB/Government relationships, the appointment of a new Chairman in July, and the call on him to produce a corporate plan as soon as possible, we judge it unwise to lay down in May objectives which are neither a clear policy statement nor workable targets.

Financial considerations apart (and these are important) we must also reckon that the environmental lobbies will be out in force. DoE estimate that there are 2,000 hire boats, 22,000 private boats and 250,000 anglers using BWB's waterways. To these numbers we must add several hundred thousand members of the Ramblers' Association and other nature conservancy bodies. All these numbers are rising steadily. The "freight-off-roads" lobby will probably be vocal. And on top of that, 75% of BWB's mileage is in the Midlands and North, giving an unhelpful geographic focus to the combined lobbies.

Why antagonise them before giving the new Chairman a chance to sort out his Board and the commercial potential of his organisation?

5. The main defects of Mr Gow's proposals as written are:
 - failure to define "value for money" and "adequate rate of return on specific activities" (in paragraph 2);
 - in paragraph 4 no criteria are set for judging what part of "the network" (is it really a network?) is sensible for freight, or what an adequate rate of return on freight actually is;
 - in paragraph 5, there is reference to keeping up charges, but none to keeping down costs;
 - what are the priorities between leisure, freight and drainage? (Paragraph 7);

- the first corporate plan should be a costed strategy document, and should have a date attached to it.

Above all, Mr Gow's document overlooks the fact that the private sector appears to live comfortably off the canals - from the individual fisherman up to the canal cruiser companies. Why should the taxpayer chip in a subsidy of £40 million per annum? It is hard to avoid the impression that BWB have slumbered for years on assets which could be beautiful to look at and lucrative to develop. It is high time DoE woke them up.

R.J.