



House of Commons
Environment, Food and Rural
Affairs Committee

**British Waterways:
Government Response
to the Committee's
Seventh Report of
Session 2006–07**

**Fifth Special Report of Session 2006–
07**

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Environment, Food and Rural Affairs Committee

The Environment, Food and Rural Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Environment, Food and Rural Affairs and its associated bodies.

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*These Members were nominated as Members of the Sub-Committee on British Waterways. Mr David Drew was Chairman of the Sub-Committee

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Committee staff

The current staff of the Committee are Chris Stanton (Clerk), Nerys Welfoot (Second Clerk), Marek Kubala (Inquiry Manager), Andy Boyd and John-Paul Flaherty (Committee Assistants) and Mandy Sullivan (Secretary).

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Fifth Special Report

The Environment, Food and Rural Affairs Committee reported to the House on *British Waterways* in its Seventh Report of Session 2006–07, published on 31 July 2007 as HC 345-I. The Government's response to the Report was received on 3 October 2007.

Government response

Introduction

The Government welcomes the recognition the report gives to the commitment of Government and British Waterways (BW) over the past decade to improving the inland waterways network and the success in doing so. Government and BW continue to enjoy a successful partnership which has seen a remarkable renaissance in the fortunes of Britain's historic inland waterways. Our waterways are in a better state today than they have been since before the Second World War, and they are used and enjoyed by more people than at any other time in their history.

Defra and BW are committed to developing and strengthening this partnership, working together to secure the continued and sustainable revival of the waterways and their contribution to the wealth, health and wellbeing of communities across the country. To this end, the following is a joint response on behalf of both the Government and BW to the Committee's report.

Please also note that we have taken mention of waterways within this report to refer solely to those owned and operated by British Waterways in England and Wales.

Response to the Committee's specific conclusions

Recommendation 1: Study into public benefits of waterways

1. The waterways network is a public asset, and Government has a responsibility to keep the network in good order. We therefore commend the commitment of Government, British Waterways and individuals over the past decade in improving the waterways network, and their success in doing so. Vibrant and flourishing canals and rivers provide significant economic, environmental and social benefits. Government should carry out a study to determine the full social benefit of the waterways network as a basis upon which to make future funding and strategic decisions. (Paragraph 18)

The Government supports this recommendation. We fully recognise the economic, environmental and social benefits of the inland waterways and the role they can play in supporting our objectives in health, recreation, regeneration, social inclusion,

conservation of heritage and the environment. Numerous studies have been carried out on the contributions individual waterways can make in delivering Government objectives, (for example BW has just published a report on the economic benefits of the Welsh canal network), but it would be helpful to form a cohesive view of the ways in which the inland waterways contribute more widely to our objectives. We will carry out further research when resources allow, possibly as part of follow-up work to recent preliminary analysis carried out by Sheffield Hallam University of the economic benefits of inland waterways commissioned by the Inland Waterways Advisory Council (IWAC).

Recommendations 2, 3, 5, 9: 2006/07 in-year budget cut and future funding

2. We acknowledge the difficulties British Waterways (BW) has faced in the last two years in having to cope with lower-than-expected grant levels. The 2006—07 in-year budget cut was particularly disruptive because BW had already committed resource to a series of projects. We have previously criticised the Department in our Report on Defra's Departmental Report 2006 and Defra's budget for not providing sufficient certainty to its delivery bodies about grant reductions. The Department should have recognised the particular disruption an in-year budgetary cut would have caused to BW, and should have looked at other ways to bring its budget into balance. We commend BW for adapting to these financial pressures at short notice. (Paragraph 23)

3. We are extremely concerned at BW's forecasts of the impact of a RPI -5% settlement on the maintenance of its waterways network. (Paragraph 40)

5. The most important outcome from the CSR 07 negotiations must be to secure the future stability of the waterways network; something that the Government and BW both desire. We trust that BW and Defra will put their recent disagreements aside and work together closely to agree a CSR 07 outcome that ensures this stability. 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. (Paragraph 43)

9. 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. (Paragraph 63)

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.

Recommendation 4: NAO view on BW finances between 2002–2012.

4. We would welcome the National Audit Office's (NAO) view on the correct interpretation of the conflicting accounts given by the Department and BW about BW's finances between 2002 and 2012, taking into account whether BW's forecast income streams from a variety of sources—property, Government grant or elsewhere—are sufficient to maintain the network during the coming years. We recognise that the NAO has no audit access rights to BW and thus the NAO's work would need to be on the basis of a review of papers held by the Department and of seeking the views of British Waterways, as appropriate. (Paragraph 42)

Defra will work with NAO to enable them to respond to this recommendation.

Recommendation 6: Free entry to the National Waterways Museum

6. We recommend the Department for Culture, Media and Sport look favourably on introducing methods by which the Waterways Trust could adopt a free-entry policy to the National Waterways Museum—common with some other national museums—and thus increase visitor numbers to provide greater security for the care of the national assets which are its responsibility. (Paragraph 45)

It is for the trustees of the National Waterways Museum to assess the continuing financial viability of their business model. The Department for Culture, Media and Sport is working with the relevant stakeholders to ensure the museum's collection is conserved and made accessible to audiences as resources allow.

Recommendations 7 BW self-sufficiency

7. We agree with BW senior management that it is healthy for the organisation to aim to lessen its dependency on Government in the long-term. If BW is to keep its ambition to become “largely self-sufficient”, both Government and BW need to provide much more detail about what exactly this means in practice. They must also produce a detailed plan about how it can be achieved. Government should make it clear that it recognises the waterways network as a public asset and that it has a national responsibility to ensure the network is kept in good order. It must also recognise that income from property development is finite and may not always be available to compensate for further reductions in Government support. (Paragraph 51)

The Government is happy to confirm that we recognise that British Waterways' network of canals and rivers are a public asset which should be managed in the public interest. We look to BW to manage these waterways on behalf of government to ensure public policy objectives are delivered as set out following the 2004/5 policy review. The new strategy referred to above will address the possibilities over time for more self-sufficiency taking into account risks around growth in commercial income.

Recommendations 8: increasing BW income

8. We recommend that Government fully support, and provide assistance to, BW to ensure that it achieves its ambitions to operate on waterways other than those it owns or manages. Government should also grant BW an increased borrowing capability. We also confirm that 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. (Paragraph 62)

The Government supports in principle BW's ambitions to invest in land on waterways other than those it owns or manages. BW needs to work with other navigation authorities to gain their support.

At present increasing BW's borrowing limits would put further pressure on Defra's DEL which cannot be considered in the short term. However, at Defra's encouragement BW is currently undertaking a status review to identify whether a different institutional structure could allow it to expand its borrowing powers in order to increase investment in the waterways.

There are likely to be many calls on the Planning Gain Supplement (PGS) (if introduced) - but Government recognises the regeneration benefits of waterways and that BW has a case under section 106 or PGS—dependent on the decisions made by local authorities about how to use section 106 or PGS funds. Defra will ask the new Interdepartmental Working Group (see recommendation 10) to keep this matter under review.

Recommendation 10: direct contribution by other Departments to BW

10. We conclude that there is a strong case for other Government departments—such as Culture, Media and Sport, Transport and Communities and Local Government—to make a direct contribution to BW's funding, to reflect the contribution BW makes to the agendas of those departments. We recommend that Government prepare proposals to ensure this is achieved, as part of the next CSR review. (Paragraph 65)

As the single Government sponsor of BW (in England and Wales), Defra is best placed to lead in taking a holistic view of BW cross-cutting role recognising the whole plethora of benefits associated with waterways. Defra will set up an Interdepartmental Working Group to formalise and strengthen its contact with other Departments and make sure that the potential benefits of waterways are understood. Other Government Departments have the flexibility to fund the inland waterways sector direct where it can help deliver specific policy requirements, for example through grants for regeneration and freight projects where funds are provided to reflect the contribution of inland waterways to Departmental objectives.

Recommendation 11: BW status review

11. We welcome BW's confirmation that privatisation is not a serious option for BW's future structure, and we strongly share this view. The waterways network is a public asset providing wide benefits to society and thus some Government funding will always be necessary. In its response to this Report, Government should rule out privatisation as an option for the waterways network, and make clear its reasons for so doing. However, as part of the Government response, BW should state why privatisation was included in its strategic options brief in the first place. It should also present to this Committee the financial analysis which confirmed privatisation as an option. (Paragraph 69)

Privatisation of BW is not the policy of Government or BW. BW included it as one of the nine broad structural options in the original request for proposals which sought competitive tenders from potential advisors. This was because BW took the view that all options should be considered and any future recommendation to Government would have been evaluated against all possible options including privatisation. No financial analysis was carried out in reaching this decision, because this is what the strategic options review is intended to supply. The final terms of reference for the appointed advisors are being prepared by BW in consultation with Defra and the Scottish

Government and will make clear that any option must maintain its waterways in long term public ownership in a manner that ensures their long-term financial security.

Recommendation 12: BW Environmental Heritage Strategy

12. We recommend that BW develop an environmental heritage strategy for the waterways, in tandem with the Waterways Trust. This should involve all interested parties, and could be orchestrated through the British Waterways Advisory Forum. (Paragraph 74)

BW includes environment and heritage covering the natural and/or historic environment in its corporate planning and these issues will be included in the new strategy to be agreed with Defra. As owner of the largest number of historic assets of any government agency, BW already works closely with English Heritage and the Heritage Lottery Fund. The British Waterways Advisory Forum (BWAFF) has already set up a working group to study heritage. BW will examine, in consultation with The Waterways Trust and the BWAFF, the need for further work to be undertaken.

Recommendation 13: BW trial tendering system for moorings

13. We are disappointed that British Waterways (BW) did not inform us in evidence about the introduction of its trial tendering system for mooring allocation, and note the concerns of the boating community that the new system may further increase the cost of boating. We are concerned that the permanent introduction of such a system could make boating too exclusive. (Paragraph 78)

BW notes the Committee's concern. However the design of the trial tendering scheme was far from complete at the time of the evidence sessions and the pricing of moorings was not the prime focus of the Committee's inquiry.

BW will ensure the Committee's input is taken into account as part of the public consultation that will take place on the trial tendering of mooring vacancies. The trial tendering system for mooring allocation process will only apply to long term moorings directly managed by BW that become vacant. This is a pilot exercise starting in late September which will last for a year with interim reviews to assess the effectiveness of the process to determine whether it continues for the full 12 months. Feedback from customers will be gathered throughout and views from boating interest groups will be invited at the six month review leading up to the formal written consultation at a later stage. BW and Defra are liaising on the progress of this pilot.

The moorings managed by BW are part of a wider inland moorings market and BW must ensure that any pricing of moorings complies with competition law. Prices held artificially below the market rate are as potentially anticompetitive as are excessive prices. The provision of increased numbers of moorings should, over time, contain any increases in market price.

Recommendation 14: BW consultation of companies using the network

14. We are concerned that inadequate maintenance of the waterways network could adversely affect the business of holiday hire-boat companies, cruise companies and others who depend on the network for a living. BW must ensure that the views of those companies are heard when it is prioritising its maintenance work responsibilities, particularly in the context of the current financial pressures and a possible shortfall in spending on 'major works' on the network during the CSR 07 years. (Paragraph 81)

BW consider that they have a good working relationship with the British Marine Federation and hold frequent discussions with their major boating trade customers. They value the views of network users and take their concerns very seriously, balancing where they can the needs of the network as a whole against those of individual companies. BW confirm that they will continue to ensure the opportunity for network users to participate in discussions about BW decisions relating to spending on the waterways infrastructure and dredging etc which directly affect them.

Recommendations 15: licence and mooring fees

15. We also note boaters' concerns that significant increases in licences and mooring fees could have an adverse impact on growth in leisure boating on the network. The boating community is already facing increasing costs because of the recent removal of the EU derogation covering the use of red diesel fuel for leisure boats, despite the Government's opposition to such a move. We recommend licence and mooring fees should be kept at a level that maintains a high level of individual participation on the network. (Paragraph 82)

Boat numbers on BW's network are at a record high. However BW's plans do include provision for boat licence increases significantly above inflation in the next three years. Recognising the role of the hireboat industry in increasing participation in boating, and the industry's need to set brochure prices early for 2008, BW recently announced that notwithstanding the general strategy of increasing licence prices in real terms, it would limit the increase in hireboat licences to 3.3% for 2008. Consultation on the other potential licence increases is set to begin shortly. It will clearly be important to get the balance between increased revenue and individual participation correct.

As to mooring prices, BW is a participant in a market and must comply with competition law in the setting of its prices (see also the response to recommendation 13).

Government look to BW to achieve value for money in all its activities and to set a market price for its services. All net income from BW activities is reinvested back into waterways maintenance for the benefit of all. Access to the waterways for all is an important public policy objective but this can be achieved in a number of ways without affecting BW's requirement to operate commercially in running its business.

Recommendation 16: Residential marina berths

16. In its response, BW should state its expectation of how many of the 10,000 new marina berths required by 2015 will be occupied by boat-residents. (Paragraph 83)

These berths are being created by private sector investors who will respond appropriately to demand for residential moorings. The market, rather than BW will determine the figure. In general BW would expect to see an increase in the proportion of berths provided for residential use, and is encouraging local planning authorities to take a more positive outlook than currently being shown. This is a subject which could be usefully put on the agenda of the new Interdepartmental Working Group (see recommendation 10)

Recommendations 17 and 18: increasing freight transport on the waterways

17. If the Government is serious about transferring more freight onto the waterways, companies themselves require further financial incentives to make this move, in addition to the existing Freight Facilities Grant. We recommend that the Government conduct a review to examine the possibility of introducing a carbon credit scheme to encourage more businesses to move onto the waterways. (Paragraph 92).

18. Given the potential carbon savings to be derived from an increase in freight transportation on the waterways, we recommend that Defra form a joint industry/Government body fully to evaluate the opportunities that exist for freight and make recommendations as to where the responsibility for promoting the uptake of these opportunities should rest. (Paragraph 93)

The promotion of alternatives to road freight rests with the DfT. This promotion is done on the basis of maximising the carbon (and other) benefits to society. The DfT uses mode shift from road to rail and water, as well as road efficiency programs, to minimise the overall impact of moving goods. The current method of assessment of Freight Facilities Grants (FFG) includes a component for carbon savings. So Government captures the benefits of carbon savings now when making investments through the FFG scheme.

BW has taken the opportunity to promote freight transport where it can, for example, BW worked closely with a number of stakeholders, including Defra, the Olympic Delivery Authority and DfT, to put in place a scheme to build a new £19m lock at Prescott Channel. This will allow waterborne freight to be carried right into the heart of the Olympic site as well as long-term legacy benefits for the waterways and the area as a whole.

Government recognises that the responsibility for promoting and facilitating and delivering the carriage of freight on the whole inland waterways network does not lie

with any one body. The Government also recognises that the movement of freight is undertaken by a commercial market. To improve market knowledge, DfT commissioned a study to consider which waterways are best suited to freight uses. The aim of this work is to widely inform the market as to which waterways have the greatest commercial potential for freight use. This will be published later this year and it will be available to all organisations (commercial and trade groups) seeking to promote the use of waterways as an alternative to road transportation.

Following the outcome of this study, Defra will ask the new Interdepartmental Working Group (see recommendation 10) whether there is a need to set up an Industry/Government group to consider the wider issue as to how Government and industry might further encourage more businesses to move onto the waterways e.g. through a carbon credit scheme.

Recommendation 19: BW's relationship with network users

19. Whilst we acknowledge that recent moves—such as the creation of the BW Advisory Forum—are in the right direction, BW needs to do more to develop an effective direct relationship with the users of its network, particularly those who are significant ‘customers’ such as boat residents, operators and licence holders. (Paragraph 97)

BW organises a wide range of consultative forums including the British Waterways Advisory Forum, Boating and Towpath National User Groups, twice yearly local consultation meetings and written consultation on major issues. BW will discuss this issue with the BWAF to see if any changes need to be made.

Recommendations 20 and 21: BW's relationship with local authorities

20. BW has room for improvement in the way it works with others on projects. Given the complicated nature of partnership arrangements, it is vital that BW devote resources to developing mutual trust with other organisations in the public, private and voluntary sectors. It should also ensure that it employs good management at all levels who can demonstrate effective communication and listening skills. We support a closer formal relationship between BW and the Local Government Association (LGA) so that examples of best practice can be collated and promoted to those areas where the relationship between BW and local authorities can be improved. (Paragraph 101)

21. Issues related to the waterways are of key importance to local authorities in many parts of England and Wales. We were therefore disappointed by the initial lack of evidence from local authorities to our inquiry, and the fact that we had to prompt the LGA for a submission. (Paragraph 102)

We agree that BW needs to work closely with councils in whose areas waterways have strategic significance. Individual waterways will sometimes be of considerable

importance to individual authorities, but not typically for their own sake, e.g. they will be significant for an adjoining regeneration scheme or be of environmental importance.

BW considers it has good relationships with scores of local authorities served by its network. Such relationships have been crucial to the successful waterway driven regeneration of recent years. BW has made contact with the Local Government Association (LGA) at senior level and work is in hand to enhance and deepen the relationship between the two bodies. BW is also in dialogue with the Town and Country Planning Association.

LGA is prepared to explore with its membership and BW the case for a national BW/LG forum to help shape the background to this individual engagement but its viability would be dependent on sufficient councils seeing value in it.

Recommendation 22: Government view on expansion of the network

22. Government itself often benefits from expansion of the network because of regeneration effects and the income generated through property development. Given these benefits, Government should make clear in its response its current position on the expansion of the network, and how it aims to address the real possibility that many projects will not get off the ground because of the funding pressures on BW. (Paragraph 105)

In seeking to achieve a sustainable long-term strategy (referred to earlier) Defra and BW will be considering the size of network given the need to balance managing maintenance costs, maximising commercial revenue, and achieving regeneration opportunities etc. Government supports restoration where there are overriding public benefits of doing so and the main beneficiaries can pay for long term upkeep.

Recommendation 23: BW strategy on flood risk management/Government review

23. In its response, BW should set out its current strategy for flood risk management and for responding to flood emergencies, and say how it expects this role to develop in the future. We call upon Government to ensure that its independent review of the 2007 floods fully takes into account the role of BW and its waterways network in the future strategy for flood risk management and emergency flood response. (Paragraph 109)

A wide-ranging and thorough review is being established by the Government to identify any lessons to be learned for the way that we manage and respond to flooding events such as those experienced recently. This will be led by an independent Chair, Sir Michael Pitt. All relevant aspects will be included. The Government is aiming to publish initial findings by the end of the year and subsequently a formal report.

BW's contribution to flood management on a national scale is quite limited as canals are not designed to take flood flows but locally its contribution can be quite significant. BW is currently working on a national flood management plan which will set out the framework for addressing current and future risks to its network (due for completion at end 2008).

Recommendations 24 and 25: Defra/BW relationship

24. 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. (Paragraph 122)

25. A new minister is now in charge of BW; we believe this is the perfect opportunity for a fresh start in the relationship between the Department and BW. They must now both work to improve relations in the final negotiating period of the CSR process and beyond. (Paragraph 123)

Communication between the Minister responsible for BW, officials and BW is good. The new Minister and officials are taking opportunities to visit the waterways and meet key BW staff and stakeholders. The Shareholder Executive is also working closely with Defra to reach agreement on a properly transparent relationship, driven by an agreed strategy, clear objectives and consistent financial information. In addition, the Shareholder Executive will work with Defra to monitor BW performance and ensure there is clarity on all sides regarding both BW's overall financial performance and its delivery of agreed objectives.

Departmental for Environment, Food and Rural Affairs

3 October 2007