Policy Study No 118

Pleasure and profit from canals

a new plan for British Waterways

Keith Boyfield

CENTRE FOR POLICY STUDIES
8 Wilfred Street, London SW1E 6PL
1990

The author

Keith Boyfield is a Research Fellow of the Centre for Policy Studies. A graduate of the London School of Economics, specialising in government, he was awarded a Social Science Research Council Studentship to conduct research into the performance of nationalised industries. He has served as personal assistant to The Rt Hon. Tom King MP and The Rt Hon. Lynda Chalker MP. He is now a partner in the consulting practice, Boyfield Morse & Letwin. His previous publications for the Centre include *BL: Changing Gear, Put Pits into Profit* and *The Property Services Agency – A Case for Demolition.*

Acknowledgement

This study was prepared for the Nationalised Industries Study Group of the Centre for Policy Studies. Support towards research was provided by the Institute of Policy Research and the Martin Landau Foundation.

ISBN 1-870265-51-3

Printed in England by G.Donald & Co. Ltd.
Unit 2, 54 Kimber Road, London, SW18 4PP

Preface

Conflicts between amenity and development are familiar, and all but inevitable. On the one hand there are those who wish to conserve, which tends to cost money; on the other, those who are keen to develop and make money. These conflicts are seen in a limpid form in the case of British Waterways. No one will deny the pleasure that the 2000-odd miles of canals and rivers give to those millions who walk, who cruise, who fish along their banks and towpaths. Nor can anyone shirk the fact that their maintenance costs far more than any possible revenue to be gained from such uses. Nor, again, can anyone be blind to the possibilities for commercial development in many of the basins and stretches of water.

How, then, to reconcile some at least of the conflicts? Should a single body, as now, be charged to do so – departments fighting their different corners, and falling back on the exchequer to rescue them from their failure to make ends meet?

This is the question which Keith Boyfield addresses. He proposes to establish a Trust whose principal duty is to conserve the great 'linear park' which we can all enjoy; and a Development Company to profit from the splendid opportunities for the building of residential, recreational and commercial complexes; and to transfer BW's regulatory functions to the National Rivers Authority. The split raises new problems. Their solving, however, should help to enhance the environment, regenerate the inner cities, and reduce the drain on the exchequer.

Director of Publications

Contents

Introduction

British Waterways (B.W.) has, for many years, been the backwater of the nationalised sector – one of the very few remaining public corporations based on the Morrisonian model. Originally nationalised in 1947, it was established as a separate public corporation by the 1962 Transport Act. British Waterways is responsible for about 2000 miles of navigable waterways, mostly canals but with some stretches of river navigation. All the canals were built in the late eighteenth or early nineteenth century.

British Waterways includes 1,549 locks, 60 tunnels, 397 aqueducts, 4,763 bridges and 89 reservoirs. It also owns Sharpness harbour. It employs a workforce of some 2,500, two thirds of whom are categorised as manual.

Its activities can be split into three broad categories:

(i) Commercial
- Collection of freight tolls and dues
- Port facilities
- Estate management
- Land drainage & abstraction

(ii) Non (or semi-) commercial
- Maintenance of canal banks, bridges, tunnels etc. and dredging
- Property development
- Wildlife conservation
- Industrial archaeology
- Pleasure craft boating
- Angling
- Amenities for walkers, riders, etc.
- Museums
- Recreational development

(iii) Regulatory
- Water quality
- Pollution control
- Navigation rights

This pamphlet argues that these activities are too diverse for any single body, whether public or private, to perform satisfactorily. It recommends that British Waterways should be split into three separate bodies: one following wholly commercial criteria; the second concentrating on leisure amenities and conservation; and the third a regulatory agency[1], to oversee the these two new organisations.

1. B.W.'s existing regulatory functions should be transferred to the National Rivers Authority (responsible to the Secretary of State for the Environment).

1
British Waterways' recent performance

When originally established, B.W. was set a mixed bag of objectives, some outright commercial, and others more in the nature of general exhortations to promote the use of waterways for leisure, recreation and amenity. The goals often and inevitably conflicted. B.W. has never seen itself as a purely commercial profit-maximising enterprise, nor as a purely heritage trust. This is the root of its dilemma.

B.W. has never turned in a profit since its inception. As can be seen from figures 1 & 3, B.W.'s income amounts to about a third of its expenditure. It currently loses £45.5m a year. In 1989/90, self generated income amounted to £24.1m while expenditure totalled £70.6m. The shortfall of £46.5m was made up by government grants.

Figure 1
B.W.'s costs structure (£mn)

	1989/90	*1988/9*	*1987/8*	*1986/7*
Waterways operating + maintenance	54.2	47.9	46.6	46.8
Other operational costs	3.1	3.7	5.7	5.5
Administration	8.2	7.5	7.4	7.4
Restructuring costs	–	0.5	0.5	0.1
Irrecoverable VAT	1.2	2.1	1.6	1.6
Interest	1.1	2.0	2.9	2.9
Extraordinary items: new computer systems	2.8	1.9	–	–
Closure costs – freight – carrying fleets				0.6
Total costs	70.6	65.6	64.7	64.9

Source: British Waterways' *Report & Accounts.*

Unfortunately the break down above, reproduced from B.W.'s *Report & Accounts*, casts little light on its activities. For instance, no definition is given of 'administration' and 'other operational costs'. What is abundantly clear is that B.W.'s biggest cash drain is maintenance; this item represents more than 70 percent of total outgoings, and has been equivalent to the annual shortfall made up by the taxpayer in recent years. What are termed restructuring costs relate to redundancy and severance payments – the Board has pared its payroll from 2,983 in 1986/7 to 2,492 in 1989/90.

Despite this pruning, the Board's total labour costs seem to have kept more or less level in real terms.

Figure 2
Total employment costs (£'000)

	1989/90	*1988/9*	*1987/8*	*1986/7*
Engineering dept*		24,036	22,227	21,676
Freight division*		1,478	2,488	2,536
Leisure & tourism division*		1,387	1,071	1,024
Estates dept*		1,301	1,305	1,296
Finance dept (inc. data processing)	1275	1,261	1,303	1,146
Personnel dept	803	703	637	606
Central charges and shared services	867	1,354	1,598	1,495
Total	33,436	31,520	30,629	29,779

Source: British Waterways' *Report and Accounts* (Note 6, 88/89).
*N.B. The figures in the latest 1989/90 accounts do not correlate precisely with previous years.

It will be seen that about three quarters of these costs are attributable to maintenance and operation of the waterways system. In contrast, the estates department, which is B.W.'s main income generator, accounts for only 4 per cent of direct employment costs.

The next figure shows the sources of B.W.'s income.

Figure 3
Revenue break-down (£mn)

	1989/90	*1988/9*	*1987/8*	*1986/7*
Freight tolls and dues	1.2	1.1	1.1	1.0
Other freight activities	1.5	1.7	1.3	4.3
Leisure uses	5.9	5.4	4.8	4.4
Estate management	12.8	9.5	7.6	7.3
Water charges	2.7	2.2	2.4	2.6
Total	24.1	20.8	20.6	19.6

Source: British Waterways' *Report and Accounts.*

Observe that the Board derived about half its total income from its property interests. Lately the Board has pursued an aggressive strategy towards development. In various joint ventures with private sector property developers it has boosted its income by leasing off land, and negotiating leases on both new and refurbished buildings. And it has established a small headquarters team to instigate major property developments.

Notwithstanding all this activity – the Board currently has 200 development schemes in various stages of progress – it should be noted that some observers believe that its land and property portfolio is still greatly undervalued in the accounts. The open market valuation placed on B.W.'s property holdings doubled when its professional advisors, Weatherall Green & Smith undertook a revaluation in 1988. It must, however, be borne in mind that this is a somewhat rough and ready valuation based on only modest research.

B.W. points out that a great deal of confusion results from the failure to distinguish between the value of those sites which are derelict and those which have been fully developed. In the 1988/89 report & accounts, Weatherall Green & Smith estimate B.W.'s non-operational land and property holdings to be worth £210m. The Board estimate that the total developed market value is worth nearer £2 billion. However it also points out that to develop these sites would require a capital injection of around £1.5 billion.

So long as British Waterways remains in the public sector doubts will continue about the accuracy of the valuation of its land and property holdings.

What is undeniably the case is that the value of B.W.'s land and property portfolio depends upon what entrepreneurs are allowed to do with it.

The second biggest source of income (summed up in the category 'leisure use of waterways') are the combined fees and revenues derived from pleasure craft, hire boats, anglers' fishing permits and the money generated by museums and information centres. Income from anglers amounted to £312,000 in 1988, 29 per cent more than in the previous year. It is generally agreed that more money could be raised from this source; for example, the Government has accepted the Environment Select Committee, suggestion that the present average charge for fishing is too low. Thus it has stated that:

> 'We agree with the IWAAC and the IWA that – initially – £1 per rod would be a very reasonable charge: as the fishery improves, it should be possible to increase charges further without discouraging the fishermen.'[2]

About 25,000 boats use the canal system,producing an income of £3,571,000 for the Board. In 1988, as part of a phased increase, the Board increased its fees and charges for boat licenses and registration certificates by an average of 8 per cent while mooring charges rose by an average of 9 per cent. But, in market terms, rentals may still be much underpriced. Mooring charges are around £1,500 a year in Little Venice, a part of central London where the neighbouring houses change hands for £1 million and more. Demand for such moorings far exceeds supply!

The third most important source of income is freight tolls and dues. The Board of B.W. believes that this will not produce much growth. Consequently, it has wound down its freight transport business on the grounds that it could not invest the sums required to make such activities profitable. The sale of B.W.'s remaining storage depots and ship wharves' businesses in April 1988 to Pointbid plc signalled the withdrawal of B.W. as a major freight operator.

Water charges are the final source of revenue. B.W. at present collects nearly £3m a year from the interested industries, including the newly privatised water utilities which abstract water from the canal network. B.W. could earn much more if it charged for essential drainage services; indeed, the Chairman estimates that it might be as much as £25m a year. But difficulties in measuring the value of these services have so far discouraged progress on this front. B.W.'s plea for a proper service fee for

2. Government Report to the House of Commons, Cmd. 967, session 1988/89, p.5.

its drainage services was backed by the Parliamentary Select Committee in its report in 1989, and the Government has indicated that it is sympathetic:

> '. . . while precision is not possible, it would be feasible to produce a worthwhile approximation of the value of land drainage which the B.W. provides, and we recommend that the service fee . . . should take this into account.'[3]

3. Parliamentary Select Committee on the Environment, session 1988/89, Fifth Report, HC 237.

2

BW's current strategy

The blunt fact is that the income which BW derives from the various users of the waterways system has been, still is, and is likely to remain, insufficient to meet the cost of maintaining its 200 year old network.

BW's present strategy to address this dilemma places great emphasis on property development. The present chairman sees the future as chiefly determined by what use can be made of its portfolio of land and property assets. British Waterways is keen to maximise its revenue from property development; its recent efforts to this end have attracted considerable press comment. Within the next three years the Board is seeking to self-generate at least two-thirds of its total income, thus reducing its need for government support. In broad terms it aims to generate about 55 per cent of its income from property with 25 per cent deriving from leisure and tourism; it is hoped the remaining 20 per cent will stem from other activities such as freight and water charges.

In February 1989 *The Sunday Times* pointed out that British Waterways was sitting on some extremely valuable property, particularly in London. These include 'the Board's planned office redevelopment around Paddington Basin . . . valued at £350m, its housing scheme now under way at Limehouse basin at around £250m', and 'Europe's largest redevelopment . . . the goods yards north of King's Cross', where the Regent's Canal Basin is at the heart of the £2 bn project.

It is also worth noting that in many places, BW owns narrow strips of land on both sides of a canal with derelict land immediately behind. If BW had the financial muscle to negotiate development of the entire site, it could make a lot of money.

Outside London, BW has recently participated in a number of major propery developments, many of which are in the heart of our old industrial towns, e.g.

- Leeds Canal Basin
- Gas Street Basin, Birmingham
- Gloucester Docks
- Coventry Basin

- Milton Keynes
- Bowling Basin, Glasgow

The strategy of the Board to develop its property interests is clearly right. Only a few years ago, British Waterways had a poor reputation for negotiating property deals with the private sector. However, more recently it has begun to build up a team of skilled negotiators to work on major property developments. It has also begun to appoint professional advisors such as lawyers and chartered surveyors to help it on specific projects.

As part of this new initiative British Waterways has established joint venture companies with private sector partners to develop specific sites. For example, it has formed Limehouse Development Ltd with Hunting Gate Homes to develop the Limehouse Basin site. Similarly, it has established Gloucester Docks Management Company with Pearce Developments and Gloucester City Council to maintain the refurbished Gloucester Docks.

Nonetheless, as long as it remains within the nationalised sector, British Waterways will find obstacles in the way of raising the required amounts of capital for any major property development. True, the arrangements have recently been relaxed somewhat. Up till this year British Waterways had to spend almost all the money it received from government within a single financial year, not being allowed to carry forward more than £1 million in unused income to the next financial year. Following the Government's approval of the board's integrated business plan earlier this year, British Waterways is now authorised to retain up to £5m of its own self-generated income on the understanding that it will be used for specific projects within the Board's forward investment programme. Though the difficulties associated with government borrowing are less onerous than they were, British Waterways still suffers from the inevitable constraints dictated by its public sector role.

British Waterways has persuaded the Government to maintain broadly its level of grant funding whilst at the same time allowing it to retain the income it generates from its commercial activities. As stated in its response to the select committee inquiry, the 'Government recognises that the Board needs to be able to respond speedily and flexibly to development opportunities and accepts that the Board needs greater freedom of action if it is to be able to derive maximum advantage from its property holdings' (para 18).

The Government has thus accepted the management's argument that the business requires more 'up-front' investment if the level of grant is ever to be substantially reduced in the longer term.

Until now, the Board's role in property development has effectively been confined to selling the freehold land which development companies then exploit. Its share of the profits from such property schemes has accordingly been modest. Only in the private sector will the Board's property development arm be able to maximise the very great potential which still remains.

The Board claims that it is not in the business of property development on its own, preferring to see itself 'as a partner with the private sector where our particular expertise in the managing and upkeep of water can be useful to that joint venture'[4].

This approach seems unduly restrained. Surely it is far better to set up a designated, private sector vehicle to exploit fully the derelict land and property which has been in BW's ownership for nearly half a century: one which is free to recruit a team of property managers able to borrow capital in the international market place.

Associated British Ports, since it has been in the private sector, has shown how successful a previously nationalised concern can be, once it is allowed to exploit its property assets in a serious commercial manner. The company, which is the largest ports group in Britain, is involved in an extensive programme of property development, estimated on completion to be worth over £800 m. In 1988 50 per cent of ABP's pre-tax profits was derived from property activities, while in 1988/89 they contributed £18 m towards pre-tax profits of £57.2m. It has recently established a new subsidiary, Grosvenor Waterside, to redevelop run-down derelict sites in ports such as Cardiff, Hull and Plymouth.

ABP's innovative example is one which British Waterways could profitably follow.

4. *Source.* Ibid – reference 3.

The maintenance backlog

The principal challenge facing BWB is how to tackle its £200m maintenance backlog; despite the fact that in the financial year 1988/89 61 maintenance projects were undertaken by the Board, ranging in cost from £50,000 to £1.2 million – a total of £24.5 million. BW's inability to keep pace with the need to maintain the canal system in proper repair must be counted as its greatest failure. As long ago as 1975 a report by Peter Fraenkel & Partners warned that arrears in maintenance would cost £60m to put right. Since then things have steadily deteriorated, despite a government grant of £8m p.a. towards maintenance arrears since 1983/84.

Why has this situation been allowed to develop? The principal trouble is BW's inability to create more self generated income; which in turn has made British Waterways ever more dependent on the Treasury. But the levels of grant received from central government have been insufficient to keep pace with the needs of maintenance. And then there is the Board's own lamentable labour productivity record. It is not only anecdotal evidence which supports this latter criticism: there are also the detailed findings of a Monopoly and Mergers Commission inquiry in 1987[5]. This exposed the fact that, until recently, BWB had no uniform criteria for measuring maintenance standards and tasks, and so had no means of measuring out-turn performance against properly based targets. Moreover, the MMC:

> 'found serious shortcomings in BWB's formal appraisal of maintenance projects; in particular it needs to take more account of the usage or projected usage of the waterways, to analyse costs and benefits in money terms, and to use discounting to compare costs or benefits which occur at different times in the future.'[6]

In view of these criticisms it is not surprising that the MMC concluded that:

> 'BW's situation was one which does not seem to have given its staff much confidence in the future of the

5. Cmd. 124.
6. Para 2.15.

the waterways, or a strong sense of purpose to improve the running of the business.' (para. 2.10)

The present management has been trying to address these shortfalls. But why are not more outside contractors used? On specific maintenance projects, the MMC pointed out that:

> . . . 'we do not think the BWB should take each decision on an ad hoc basis, as it does at present: it should take decisions for each category of work on the basis of comparisons of in-house and contractors' costs' (para. 2.14)

Figure 4 beneath shows how great has been BW's failure to recoup sufficient income to enable it to maintain the canal network. Income raised from direct canal users contributes only about a fifth of the cost of upkeep. Now the Board's waterways are divided into three categories: commercial, cruising and the remainder. Only the first two of these need to be maintained to such a high standard they can be used by commercial or pleasure craft. It is worth noting that the MMC thought that the rigidity of this threefold classification had led to BW's failure to respond more effectively to the need for improving the management and maintenance of the waterways system.

Figure 4
BWB waterways costs and revenues

Category	*Length (miles)*	*Operational costs Total £000*	*Per mile £000*	*Gross revenue Total £000*	*Per mile £000*
Commercial	350	13,658	39	2,824	8
Cruising	1,100	27,795	25	6,234	6
Remainder	500	6,771	14	1,044	2
Total	1,950	48,224	25	10,102	5

Source: Parliamentary Select Committee on the Environment, session 1988/89, Fifth Report, HC 237.

Conclusion

There seems to be no reasonable prospect of British Waterways transforming itself into a profitable enterprise in the short term,

say within five to ten years. As the Enviroment Select Committee inquiry pointed out:

> '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'.[7]

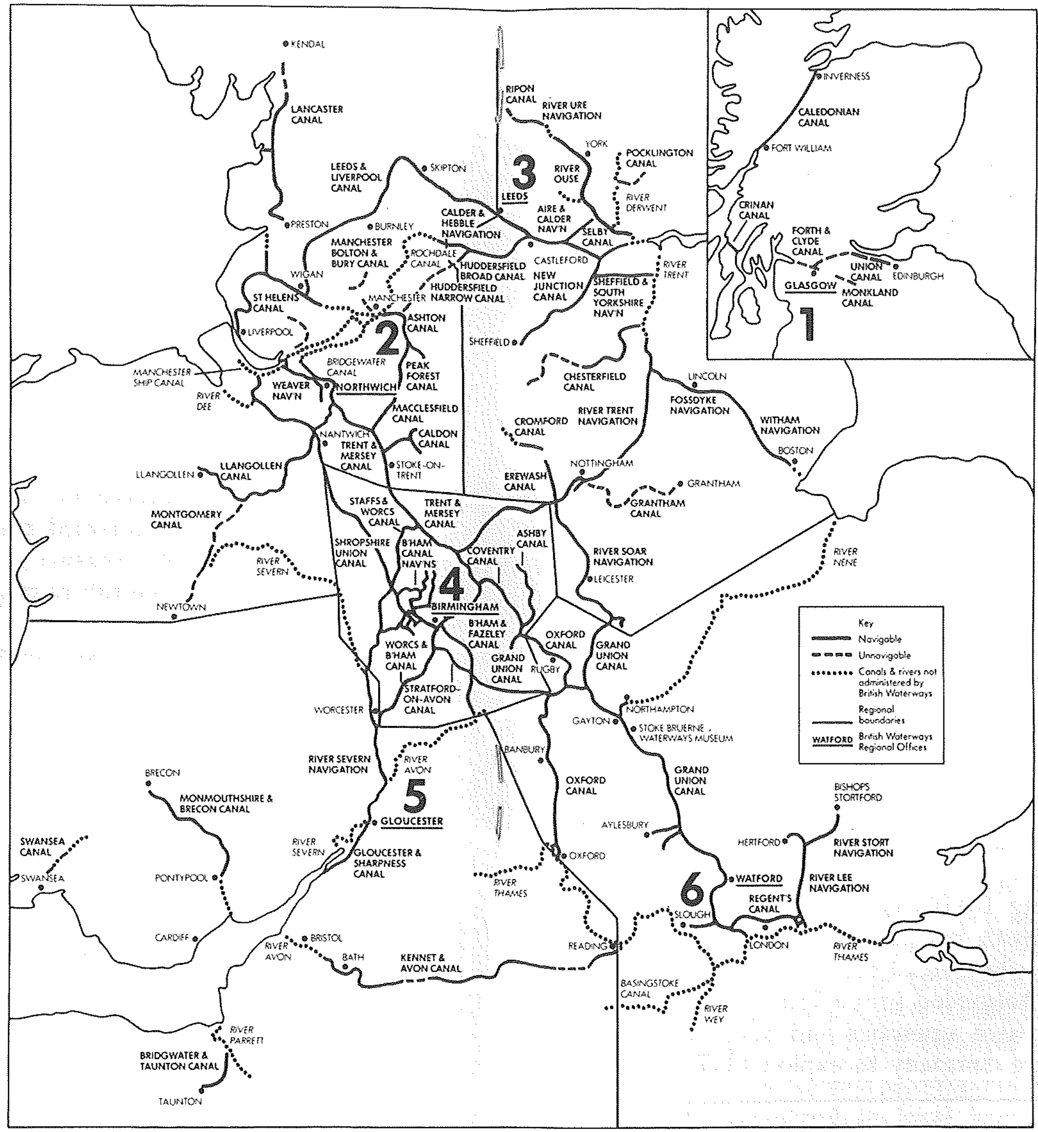
It is unlikely that any private sector concern would wish to buy BWB in its entirety – even a major property development company such as Trafalgar House – given the substantial losses incurred and the maintenance backlog of BWB, and having regard to the pay-back times sought in major property development schemes. Moreover, the private sector would not be enticed by the statutory obligations which any government is likely to enforce on a commercial owner.

A straightforward privatisation would, then, hardly be a success. The Treasury cannot look on the sale of British Waterways as a future major contributor to Exchequer funds.

7. Parliamentary Select Committee on the Environment, session 1988/89, Fifth Report, HC 237.

The Waterways Network

Source: British Waterways' Report & Accounts 1989/90



Regions:

1 Scotland

2 North-West

3 North-East

4 Midlands

5 South-West

6 South-East

3

Unscrambling British waterways – a three way split

Even if the Chairman's new management team do succeed in boosting income and cutting costs, it is difficult to see how the Board as at present constituted could ever run on a commercial basis, given the maintenance backlogs, the Treasury restraints and the other difficulties outlined above. It is hard to fault the Enviroment Select Committee's view that BWB will 'continue to rely on public funds for a significant proportion of its annual turnover'.[8]

That is not to say that the Select Committee report is necessarily right. The potential wealth locked up in the Board's portfolio of land and buildings might, if managed in the right hands, be able to earn enough to allow the Government to float BWB in the private sector. Certainly the Government should not neglect this possibility. The rest of this pamphlet, however, will suppose that such straightforward flotation is not practicable, and focus on an alternative option.

As explained in Chapter One, the root of BWB's problem is that it has been charged with fulfilling a series of often conflicting objectives. It is supposed to be part custodian of the national heritage, part leisure amenity, part commercial freight operator and part property developer. It is not surprising if one body is unable to attain all these goals.

A recommended approach

First, it is recommended that a new company should be formed, called, let us say, British Waterways Developments (BWD). BWD would be charged with exploiting BWB's land and property interests, both on its own and with private sector partners. Appropriate dividends from this commercial company (placed in the private sector) would be channelled into a Trust whose principal duties would be to improve amenities and maintain the canals. Establishing a separate company to exploit BWB's property assets would focus attention on their precise development value and give a clearer idea of their true worth. Free of the maintenance and amenity obligations placed on British Waterways, a majority 51 per cent stake in BWD could be sold by the Government to a private sector company or consortia (or float 51 per cent of the shares on the stock exchange). The closest parallel to such a public offering is probably Associated British Ports, whose land and property assets have underpinned its success since privatisation.

8. Ibid.

It is suggested that BWD would be responsible for the following activities, from all of which profit can be hoped for:

- property management
- property development
- land drainage and abstraction
- freight
- hotels
- restaurants, bars and other leisure developments

Second, the Government should establish a Waterways Trust, modelled on the lines of the National Trust (and perhaps in association with the National Trust), which would be responsible for the other activities currently undertaken by BWB which are not primarily commercial, namely:

- maintenance of the canal system (banks, bridges, tunnels, etc)
- amenity services for anglers, boaters, walkers and riders (e.g. information centres, museums, picnic sites, etc.)
- nature conservation programmes
- conservation programmes related to industrial archaeology

The Waterways Trust would have a 49 per cent stake in BWD. Thus, the Trust would have a vested interest in the commercial success of BWD, but, at the same time, its representatives on the board would seek to ensure that any commercial activities such as property development, would be sensitive to the amenity aspect of the canal network. Half of the dividend income generated from BWD's property and other commercial interests would be channelled into the Trust to help maintain the canal network and improve amenities.

It is further recommended that the Waterways Trust should be devolved to local level, perhaps utilising BW's present management structure based on 28 canal networks. One of the prime objectives should be to try and enlist the support and interest of voluntary amenity groups. Just how successful canal trusts can be is exemplified by the Kennet & Avon Trust which has raised £2.5m towards the canal's £4m restoration. This voluntary commitment is also long term – Commander Nicholas Wright, the general secretary of the Kennet & Avon Trust has affirmed that:

> 'We will continue to raise funds for improvements. We see ourselves as very much the guardian of the canal, although it is owned by British Waterways'. (*The Daily Telegraph*, 7 May 1990)

Local authorities are also prepared to recognise the amenity role provided by canals in the form of hard cash. Among those authorities contributing to the restoration of the Kennet & Avon canal are Wiltshire, Berkshire, Reading, Newbury, West Wiltshire, Wansdyke and Bath City. According to press reports these authorities have committed themselves to a grant of £300,000 a year for canal maintenance.

It may prove useful to establish a pilot study whereby a stretch of canal is managed by an autonomous trust. The South Stratford Canal is a candidate for such a trust. It has recently been transferred to British Waterways and is undergoing a major restoration, beginning at Stratford upon Avon. Inevitably the success of such trusts will depend on the leadership of particular individuals but a national umbrella Trust might well be able to forge a successful relationship with voluntary organisations, local authorities and central government agencies such as the Training Commission, and potential commercial sponsors.

The Waterways Trust should be governed by a Council. Some council members might be appointed by government while others could be nominated by national institutions such as the Nature Conservancy Council and the Ramblers' Association, and the rest elected by members. The Trust would receive a dowry to help it meet short term losses and tackle BWB's accumulated maintenance backlog of £200 million. Although outside the public sector, it might get government grants or 'service fees' for activities such as restoration of bridges and tunnels. Other possible sources of income are given in Appendix 2.

Third, BW's regulatory functions relating to water management, land drainage, water quality, effluent discharges, fisheries and navigation rights should be transferred to the newly established National Rivers Authority. Government Ministers recognised that the overlap with the NRA would have to be reckoned with when the Water Bill privatising the ten water authorities of England and Wales was proceeding through Parliament.

In respect of one regulatory matter, Lord Hesketh, the then responsible minister, told the Commons select committee on the environment that:

> 'We would not rule out reviewing the division of responsibility between the NRA and BWB on navigation matters in a few years' time when the immediate tasks of the BWB and the NRA to establish themselves, respectively, as a fully commercial business and a regulatory body, have been successfully accomplished'.[9]

The National Rivers Authority is responsible for water quality and pollution control; river management and other resources, granting licenses for abstraction and land drainage; promoting conservation and improving amenities and the navigation functions formerly undertaken by the Anglian, Southern and Thames Water Authorities.

BW's regulatory functions are prescribed under the Transport Act 1962, the Transport Act 1968, and the Water Resources Act 1963, Section 131 of which governs the issue of abstraction licenses for canals owned or managed by BW. The British Waterways Act 1983 sets out BW's powers to regulate and manage inland waterways, e.g. registration of pleasure boats, recovery of charges and statutory authority to obtain information on vessels using the canals; the Wildlife and Countryside Act 1981 deals with notification of Areas of Special Scientific Interest. There are also a number of other Acts of

9. Hansard, House of Commons, page 136.
Note: The Government has now promised to review navigation rights within the next three years.

Parliament which affect BW's regulatory responsibilities, for example, the Ancient Monuments and Archaelogical Areas Act 1979.

Advantages of proposed split

Such a split should help managers to get on with these two distinct activities – one wholly commercial, the other a public service amenity. Historically, the gulf between the two cultures on the BWB has been wide – witness the Chairman's exasperated comment to the Commons Select Committee on the Environment, 'If we are to become a commercial organisation, we ought to be judged more on financial matters – on money! There seems to be an overdue emphasis on other parameters'[10]

The suggested split acknowledges this gulf. Establishing a separate property development company should also enable the Trust to attract professionally competent managers, without problems over paying appropriate remuneration to them. (The Board has encountered considerable difficulty in holding on to its key staff, particularly on the property side, like many public corporations, it is reluctant to pay market rates.)

One possible model of the relationship between the proposed Waterways Trust and British Waterways Development is sketched in Appendix 1.

10. Op cit, Page 51.

4

Some thoughts for future directions

However British Waterways is restructured in the future (one thing is certain, it will not remain as it is), there are considerable opportunities to make better use of our inland waterways inheritance. This final chapter outlines some ideas for the way in which greater use can be made of this under-utilised resource. These suggestions encompass commercial, recreational and leisure uses.

Freight

B.W. does not operate boats itself; all waterborne transport is undertaken by private sector concerns. The Board, however, is responsible for promoting freight transport by canal, and it collects tolls based on the type of cargo and the distance carried.

Much more consideration should be given to exploiting the freight potential of our navigable waterways. For example, there is scope for upgrading some of our rivers through dredging to make them better suited to commercial traffic. The Government might wish to pursue the suggestion of the National Waterways Transport Association and carry out a series of feasibility studies on improving navigable waterways so that they can accommodate larger vessels, particularly those with a sea-going capability.

An example of the contribution which canal-borne freight can make is the recent improvement of a section of the Sheffield and South Yorkshire Navigation between Rotherham and Doncaster. A £16m improvement programme undertaken between 1979 and 1983 allows barges up to 700 tonnes dwt. to navigate this stretch of canal carrying coal, oil and other minerals. Funding for this improvement came from the Government, the EC European Development Fund and the local authority.

For all practical purposes commercial freight operations are limited to the wider canals and navigable rivers; the original inland canals dating back to the eighteenth century have no real commercial future as far as freight is concerned. Nonetheless, considerable scope for such initiatives exist on the East Coast and in the Midlands. The River Nene is one example.

Such a policy would obviously be environmentally attractive because it would help remove bulk cargoes from our congested road network. If the Government introduces a 'carbon tax' on road haulage, as has been hinted[11] carriage by water will become financially more attractive.

Coal is currently the predominant cargo carried by waterway both in terms of volume and value. In 1988/89 1.9 million tons was carried by boat, but nearly all of this was accounted for by the power stations at Ferrybridge on the Aire and Calder Navigation.

British Waterways is already looking at the possibility of building up this potentially important freight market. Much greater use could be made of packet boats carrying coal and other bulk cargoes to inland ports and power stations. Such an option may well prove attractive to the newly privatised electricity generators, who are likely to want to import coal from the continent and elsewhere.

There are six major solid fuel burning power stations located on British Waterways canals. They are all potential customers. There is a seventh potential customer at Eggborough, just a few miles from the Aire and Calder and currently the subject of a feasibility study for cutting the first new canal since 1890. National Power has commissioned this study to examine the prospects for opening a new commercial canal to carry 5.5 million tonnes of coal a year by barge from Gascoigne Wood colliery to its power station at Eggborough.

BWB's potential market is lucrative, as can be seen below. At present water transport accounts for only 6 per cent of the coal transported to the seven power stations listed below. There is a lot of potential to improve this market share.

BWB's POTENTIAL FREIGHT MARKET:
MAJOR POWER STATIONS LOCATED ON CANALS

Power Station	*Gen. Co.*	*Waterway*	*Annual Tonnage*
Ferrybridge B&C	Power Gen	Aire & Calder	5 m
Cottam	"	Trent	4m
High Marnham	"	Trent	2m
Thorpe Marsh	National Power	SSYN	2m
Drax	"	Ouse	8-9m
West Burton	"	Trent	4-5m
Eggborough	"	New cutting from Aire and Calder	4-5 m

11. *Policies against Pollution – the Conservative record and principles,* Nicholas Ridley, CPS, 1989.

There are also other bulk cargoes which could be moved by water-borne transport. An example is the oil used as a start-up fuel in power stations. In 1988/89 64,000 tonnes of fuel oil was moved by barge to four power stations, which represents a market share of 32 per cent. British Waterways is confident that this market share can be improved. Other cargoes which could be borne by water are cereals, chemicals and fertiliser.

Urban regeneration

Canals have an important role to play in the regeneration of our urban centres. Once renovated, waterways can serve as civilised focal points of towns and cities. A splendid example is the colour and charm of the Gas Street Basin in the very urban setting of downtown Birmingham. Many of these improvement programmes have been supported by the Government's Urban and Employment Creation Schemes. For example, six miles of canal towpath have been attractively restored as part of the Birmingham Inner City partnership programme, at a cost of £3m. Unshackled from public sector constraints, British Waterways Developments would be freer to forge joint ventures with other private sector partners, Urban Development Corporations and local authorities.

New initiatives adopted by the Manchester Ship Canal Company point the way. Having now bought out Manchester City Council's interest in the company, Mr John Whittaker, the Manchester property developer who has acquired the company, is keen to exploit the company's land assets. The Ship Canal has won Department of Environment approval for a major out-of-town retail and leisure development on a 300 acre site adjacent to the canal and next to the junction of three motorways. This site alone is estimated to have a likely eventual worth of £200m.

Another example of a waterway with scope for improvement is the Oxford Canal. Following public pressure about its state of neglect, British Waterways recently launched a proposal to upgrade a 1¾ mile stretch of the canal which winds its way through the centre of the city. The plan involves proposals for landscaping canal banks, building a harbour for residential moorings and waterside homes, a mixed use development on the site of the old canal basin (now a car park), adjacent to Nuffield College, and a new hall of residence at Keble College.

These plans, drawn up by BW's Environmental Service Unit at Hillmorton, Rugby, are so far only proposals, but they give an indication of the potential contribution which could be made by this canal corridor which has unfortunately been allowed to become so extremely shabby.

Heritage and access

British Waterways is sometimes referred to as a linear national park, 2000 miles long. BWB is responsible for 1549 locks, 60 tunnels, 1715 listed buildings, 130 ancient monuments, 397 aqueducts, and 50 sites of special scientific interest. The Board is fond of recounting this inventory list but it is surprising to learn that it has only just launched a national survey to record, measure and evaluate the landscape, heritage and ecological treasures for which it is responsible. Up till now it has had only a vague appreciation of the character of its estate. The survey will be recorded and updated on computer so that it provides an instantly accessible tool for management; it is supposed to be completed within two years.

The survey is likely to prove an indispensable guide and might well uncover some forgotten treasures. Peter White, the Board's chief architect, compares the canal network at times to a secret garden waiting to be explored. In many instances this is very true. Because of previous neglect, parts of the canal system are very inaccessible, especially by foot. Much more could be done to make the canal system more accessible to the public, whilst taking care not to destroy the romanticism which for many is its greatest appeal. In practical terms this calls for the construction of car parks, picnic sites and information centres which harmonise with their environment and maintain the character of the waterway.

Summary of recommendations

(1) There is no serious prospect of privatising British Waterways as a single business.

(2) There is little point in continuing to run British Waterways as a nationalised industry with a statutory obligation to pursue a set of conflicting goals.

(3) British Waterways should be split into three separate bodies, reflecting the differing functions it is currently asked to perform. It is recommended that the Government should:
- establish a Waterways Trust (along the lines of the National Trust) to maintain the canal system and improve leisure and recreational amenities;
- set up a public limited company (British Waterways Developments plc) to develop the commercial potential of BW's property assets and freight business;
- transfer BW's regulatory functions to the National Rivers Authority.

(4) The Waterways Trust should hold 49 per cent of the equity in British Waterways Developments plc. This would give the Trust a vested interest in supporting the commercial success of BWD and provide it with a valuable stream of dividend income. It should also help to ensure that property sites are developed in a manner sympathetic to the waterside environment.

(5) The Waterways Trust should seek to develop its own trading activities such as pleasure boating, angling, museums and shops, etc. whilst also vigorously exploring the opportunities for commercial sponsorship. Where appropriate, the Trust should negotiate service fees with central government, local authorities and Urban Development Corporations for the amenities and water drainage services it provides.

(6) More could be done to promote commercial freight, especially on the East Coast. There may be great opportunities for boats transporting coal to power stations in the East Midlands. This would help to reduce traffic congestion and the environmental damage caused by heavy lorries.

Appendix 1

A model for the relationship between the Waterways Trust and British Waterways Developments

It would of course be possible to do without any Development Company; and simply to identify all the sites suitable for development and either sell them outright or engage in joint ventures of some sort. This would be to carry the present course of action to its conclusion. But it would also be to neglect the way in which development and amenity are, and should remain, interwoven. Developments which paid no regard to the interests of fishing or holiday cruising or walking or historical association etc. would find little favour with the public. And it would also neglect the other commercial activities, such as freight, which might be better developed by a separate company oriented towards business rather than amenity.

To set up a company in which a Trust had a large minority of any equity, and on whose board it was represented, is both to provide some income for the Trust and some safeguard for amenity.

The objectives, then, behind the recommended split are twofold: first, to realise on behalf of the taxpayer the value of the Board's commercial activities and potential; second, to lay a foundation for improving amenity and leisure facilities. But there will be difficulties in establishing the exact nature of the relationship, if one is to steer between conflicts of interest on the one hand, and a 'cosy' relationship on the other. Among the questions which would need to be answered are:

(1) Should the Trust or the Development Company own British Waterway's present land and property holdings?
(2) Would the Development Company have a monopoly right to develop land and property currently owned by British Waterways?
(3) How would land be assigned to the Development Company for development purposes?
(4) What are the merits of franchising the toll rights to British Waterways' commercial canal network?
(5) What would happen if the Trust was unable to raise sufficient income to maintain the canal system?

The list is not exhaustive, but it shows some of the major problems to be settled prior to denationalisation. Taking each issue in turn:

1. Ownership

On balance, it would probably be better to transfer BW's assets to the proposed Trust, which would be responsible for the maintenance of the entire canal system. British Waterways Developments' commercial success would hinge on the specialist services it could offer in developing property sites, property management and promoting the freight business. The company would of course be free to diversify into related fields and promote its services overseas, following the successful example set by Associated British Ports.

2. Exclusivity

On the other hand, the Development Company would not enjoy an exclusive monopoly right to develop the Trust's property sites. Initially, the Trust would agree with BWD a 'dowry' of sites for property development. These properties would be assigned to the Development Company on long leases and the Government would seek to recoup the market value of the sites when it floated the Development Company on the stock market. Such a flotation would be open to review by the National Audit Office which should ensure that the taxpayers' interests are safeguarded.

3. Allocation of leases

Henceforth, the Trust would offer leases on its land and properties on a competitive tender basis; and its relationship with the Development Company would be at arm's length. Firms who felt that their bids had not been fairly considered would be able to take their case to the Office of Fair Trading in the normal manner.

The Trust would have an incentive to develop its land – holdings since this would boost its dividend income from the Development Company. However it would also be free to negotiate contracts with other developers who put forward attractive schemes which also promise to provide a long term income for the Trust.

The Trust would therefore operate along lines similar to those of private Trusts, such as the Grosvenor Estate and the Duke of Devonshire's Estate.

The Development Company's future prosperity will inevitably depend on the ability of its staff to initiate successful property development projects, both with the Trust and other partners, and to operate BW's other commercial activities such as freight. If it fails to achieve commercial success, it will be in the same position as any other struggling property development company, and may risk takeover. The reason for establishing a specialist private sector developer, however, is to see the company capitalise on its initial dowry of sites and expand its activities both in Britain and abroad, thus providing a growing dividend income for the Trust.

4. Franchising

BW earns over £1 million a year from toll revenues. There is probably considerable scope for boosting this income, particularly from power generators. BW's freight activities should be transferred to the new Development Company on a franchise basis. It is envisaged that freight revenues might serve as a so-called 'cash cow' to develop other aspects of the company's business.

The Government may wish to consider franchising freight tolls. In order to guard against any anti-competitive tendencies and to encourage innovative management it may prove attractive to assign set period franchises for the right to collect freight tolls. Effective franchising can realise many of the benefits of competition, even where there is a single supplier at any given time, because when the franchise comes up for renewal the existing franchisee has to compete with other potential operators. Such a policy has been adopted in the case of the new channel tunnel link; it has also been in operation for such businesses as

motorway service stations and ITV broadcasting for many years.

5. Long term viability of the Trust

Sceptics may ask, 'What happens if the Development Company fails and the Trust is unable to raise sufficient income to meet its responsibilities for maintaining and improving the canal system?'

It would probably have to go with a begging bowl to the Government. An unsatisfactory conclusion – but at least a policy would have been tried which stands a fair chance of success. As things stand, British Waterways cannot be transferred outright to the private sector. It will continue to be a burden on the taxpayer, pursuing a host of conflicting objectives.

However through a combination of government service fees, local authority amenity grants, the money it is able to raise through its own trading activities, commercial sponsorship and the dividend income to be expected from the privatised Development Company, the likelihood is that the Trust will be able to cover its costs. (It certainly will not by maintaining the status quo.)

It is surely a more attractive idea to maintain our canal system through a Trust rather than under the aegis of an outmoded and commercially disastrous nationalised corporation. The amenities should be preserved and enhanced; the developments should make money, accruing eventually into the pockets of popular shareholders.

Appendix 2

Potential sources of income for the Waterways Trust

Some canals are always likely to incur a loss. Under the Transport Act 1968 and the British Waterways Act 1983 500 miles of canal, corresponding to 26 per cent of the entire network, are classified as 'remaindered'. The Board is statutorily obliged to maintain these 'remaindered' waterways only insofar as to ensure that they meet minimum public health and safety standards. In order to restore these stretches of canal to full navigation or 'cruising' standard, the Department of Environment insists that the riparian local authorities agree with the Board appropriate long term grants to pay for the additional cost of maintenance.

Under the scheme proposed here responsibility for the maintenance of canals such as the Kennet & Avon or the South Stratford upon Avon Canal would fall on the Trust. It would be mandated to raise finance through a combination of voluntary, government and local authority support. It should also vigorously explore the opportunities for commercial sponsorship of towpaths, information centres and noticeboards, etc.

Financial sponsorship could be attracted from those companies manufacturing or marketing products and services to boaters, walkers, riders, and cyclists. Examples are:

hiking equipment manufacturers
manufacturers of outdoor clothing
specialist footwear manufacturers
suppliers of saddles, harness and riding clothes
picnic equipment
camping equipment
photographic equipment and supplies
map and guidebook publishers

Local businesses are also another potential source of sponsorship as are companies with special reasons to demonstrate their concern for the environment, because their activities or products are believed to cause pollution, eg oil companies, mining companies, chemical producers. Another source of sponsorship might be those companies concerned with health and leisure in general, eg. pharmaceutical manufacturers,

chemists and health insurers. There are also those companies involved in widespread corporate advertising such as clearing banks, building societies and insurance companies.

Corporate sponsorship for new long distance walk-ways such as the Thames Path is an idea which is being investigated by the Countryside Commission. So far, British Waterways has done little in this regard although a Marketing Unit has been established for leisure and tourism. It is recommended that:

(1) an evaluation should be carried out of the attractions of canal waterways for commercial sponsorship;
(2) an analysis should be undertaken of those companies likely to be interested in such sponsorship;
(3) an estimate is made of the proportion of maintenance costs which sponsorship might realistically cover over the next ten years; and,
(4) the Trust appoints a number of regional marketing managers to identify and attract commercial sponsorship.

A selection of recent studies

NIMBYISM the disease and the cure Richard Ehrman	£4.95
SET FOOD MARKETS FREE Repeal the Agricultural Marketing Acts Richard Pool and Andrew Threipland	£4.95
POLICIES AGAINST POLLUTION The Conservative record – and principles Nicholas Ridley MP	£3.95
GIVING Ways to encourage charities more Nicholas True	£4.95
TEACHERS MISTAUGHT Training in theories or education in subjects? Sheila Lawlor	£4.95
REWARDS OF PARENTHOOD Towards more equitable tax treatment Lord Joseph	£2.25

A subscription to the Centre

Also available from the Centre: associateship for £35 (or £30 for banker's order). This includes a minimum of ten policy studies published every twelve months, whose average cover price will be £4.95; occasional papers and previous publications (while still in print) at half price; and half-price fees for the seminars, colloquia, conferences etc. which the Centre regularly holds. For full details please write or telephone to the Secretary to the Associates, CPS, 8 Wilfred Street, London SW1E 6PL (071-630-5818).