



MEETING OF THE BOARD OF TRUSTEES

Minutes of a meeting of the Board of Trustees (the **Trustees**) of Canal & River Trust (**the Trust or CRT**) held at the Royal Air Force Club, Piccadilly on Wednesday 23rd January 2012 at 09:30 am.

Trustees:

Tony Hales Chairman
Lynne Berry
John Bridgeman
Manish Chande
Jane Cotton
John Dodwell
Tom Franklin
Simon Thurley

Apologies for absence:

Steve Shine

Executive Directors:

Robin Evans Chief Executive
Nigel Johnson Corporate Services Director (and Secretary to the Trust)
Stuart Mills Property Director
Vince Moran Operations and Technical Director
Philip Ridal Finance Director
Simon Salem Marketing & Fundraising Director

Action

13/001 DECLARATION OF INTERESTS IN ANY MATTERS ON THE AGENDA

No interests were declared by individual Trustees save that in respect of the matter for decision concerning the Waterways Pension Fund (minute 13/005) John Bridgeman and Jane Cotton declared their interest as Trustees of the Pension Fund.

13/002 MINUTES

The minutes of the meeting held on Thursday 22nd November 2012 were approved.

Matters arising:

Waterways Ombudsman: The Chairman confirmed he had written to the former Waterways Ombudsman (Ms Hilary Bainbridge) thanking her for work in that office, observing that the rigour and professionalism with which it had been undertaken raised the reputation and credibility of the role.

Reserve Policies: Mr Ridal reported that a successful meeting had been held with Defra officials the previous week at which a reserves policy with regard to obligations under the Grant Agreement had been agreed in principle and that the matter was with the Defra legal team for finalisation of the detail.

13/003 CHIEF EXECUTIVE'S REPORT (CRT 40)

The Chief Executive presented his written report.

Health & Safety - The Trustees considered the Annual Health & Safety Report annexed to the Chief Executives Report. The Trustees asked that their appreciation of the quality of the Report be noted as well as the good progress in almost all areas of report over the last 12 months. In particular it was noted that Lost Time Injuries, at 108, were down from some 300 six years ago.

Annualised Hours - This major efficiency initiative was progressing well with extensive workforce consultation completed. The issue was shortly to go to ballot amongst trades union members with a recommendation from the Unions to accept the proposed changes.

Operational Delivery – The Trustees noted the soil saturation issues arising from some of the exceptional weather events over the winter period with the British Geological Society reporting a five-fold increase in UK landslips compared with previous years. This had had an impact on the network with a higher number of earth slips than in any previous year, including the Dutton breach.

Other matters considered in the Report included the All Party Waterway Group consideration of the Waterway Partnerships; the Growth and Infrastructure Bill; planning of due diligence for the purposes of discussion with Government on the potential transfer of Environment Agency Navigations; and the inaugural meeting of the National User Forum which John Bridgeman and John Dodwell were intending to attend.

13/004 FINANCE DIRECTOR'S REPORT (CRT 41)

Mr Ridal presented his written report which included an update on the drafting of Operational Plans. In that regard he advised the Board that overall expenditure was expected to be broadly similar to that of last year (notwithstanding the period of lower government grant till 2015) and that work was still being done to fine tune the costs of the National teams.

The Trustees noted the Report.

13/005 DECISION PAPERS (CRT 42)

The following matters were considered and agreed:

- 1) **Waterways Pension Fund:** The Trustees approved (1) the Investment Strategy proposed by the Pension Trustees for the Pension Fund assets that required such approval by Canal & River Trust as Principal Employer

under the Pension Fund Scheme; and (2) agreed to delegate to the Board's Investment Committee the power to create and manage a Canal & River Trust Accumulation Fund for the purpose of repaying any future deficit on the Waterways Pension Fund (subject to periodical review of the amounts to be paid into that Accumulation Fund); and

- 2) ***Serious Incident Reporting:*** For the purposes of having in place a process for the purpose of complying with Charity Commission guidance on the reporting by charities of serious incidents (as defined in the guidance) to the Commission, the Trustees agreed to delegate to the Legal & Corporate Services Director the power, on behalf of the Trustees (acting in his capacity as company secretary) to report incidents the Commission on a timely basis provided he also forthwith informs the Chair of the Board or Chair of the Audit Committee as appropriate and reports any such incidents to the Board at its meetings.

13/006 BOARD COMMITTEES

The Trustees noted the minutes of the Audit Committee meeting held on Wednesday 10th October 2012 and the minutes of the meeting of the Investment Committee held on Thursday 6th December 2012.

12/098 DATE OF NEXT MEETING

Thursday 28th March 2013.

12/099 CLOSE OF MEETING

There being no further business, the Chairman closed the formal proceedings at 11:30 am.

Chairman

MEMORANDUM TO THE BOARD

CHIEF EXECUTIVE'S REPORT – JANUARY 2013

As agreed previously to keep papers to the minimum for the strategy day, this report incorporates all director reports other than the Finance Directors

1. Health and Safety Report

I have attached at appendix A the Annual Health and Safety report to the Board. This is a comprehensive report on the year's activities and outcomes. I am pleased that we have made excellent progress over the past 12 months in almost all areas. Some examples of good progress are that assets in D&E condition have fallen again to 16.1%, employee Lost Time Injuries were 108 (down from 300 6 years ago) and there are now 30 volunteer groups authorised for self-assessment.

2. All Party Parliamentary Waterways Group

The Co-Chairs of the APPWG, Huw Irranca-Davies and Sir Tony Baldry have decided to hold three meetings to look at the Waterways partnerships to:

- Understand the aims and progress of the Partnerships and their plans
- Understand how they are developing relationships with Local Authorities, LEPs and engaging the community

The Chairman and I have been asked to attend one of the sessions. Partnership Chairs invited are Charlotte Atkins, Peter Mathews, John Best, Fleur du Rhe Philippe and Dr. Mark Lang. Some Local Authorities and LEP representatives will also be invited.

3. National User Forum

At the final meeting of BWAF it was agreed that a new national forum would be established by the Trust as a communication conduit with the principal users of the network.

The first meeting of the National Users Forum will be 10.30am on Thursday 21st February at Hatton. If any Trustee wishes to attend they would be very welcome.

4. Partnership Chair Dinners

We have held two dinners (north and south) with Partnership Chairs to provide an informal forum to gauge progress, working relationships and needs. All the Chairs are very positive about their roles and the relationship with the local waterway. All are keen to understand the work of the national teams better and visits by the relevant directors are helping to do this. The key points arising were:

- A desire for the Partnerships to have some funds to spend on matters they consider a high priority. (The SPC have agreed to set this at £25k per Waterway Partnership (not Museums or All Wales).
- The need for greater local publicity/promotion.
- Acceptance that although the Waterway Managers must remain on the Boards and a close contact, the real relationship in the future will be with the Enterprise Teams.
- The Strategic Plans were a good idea. Heather Clark has provided excellent support and all Waterways were fully engaged in delivering the plans.

5. Environment Agency Navigations

We have been pressing both the EA and Defra to increase the pace of dialogue and information exchange if the planned transfer is to take place in 2015.

Both are receptive and we've had some good planning meetings but a huge amount still needs to be done. This will be a major undertaking for the Trust over the next 24 months and we expect the project costs to be [Confidential information redacted]. We need to discuss with Defra how they think we will fund these costs.

The most urgent task is for EA to create a data room that provides all the operational, technical and legal information we require on what is being proposed for transfer. This is a daunting task for EA but they understand and accept the need.

6. Staff Engagement Board

Following the staff survey I have established the above Board of 6 senior managers to understand in more detail the concerns and needs of the 6 areas of engagement that were highlighted in the survey.

Each member of the Board is tasked with a specific work stream and we hope to have a fully agreed and worked up action plan for implementation by May.

The senior Managers and their tasks are:

- Ed Fox – Change Management
- Simon Bamford – Learning and Skills
- Julie Sharman – Leadership
- Gaenor Prest – Career Opportunities
- Quentin Pickford – Recognition
- Jackie Lewis – Reward

7. Annualised Hours

We have completed all the very extensive consultations about moving the bank staff to annualised hours. We have reached agreement with the Unions and it appears most of the staff now accept the proposal. The Unions are holding a ballot at the end of January and we will know the result in early February.

If the proposal is agreed this is a major step forward in driving efficiency and is down to some excellent work by Gaenor Prest, Debbie Lumb and the Waterway Managers.

8. Operations Delivery

8.1 Winter Works

Work on lock gate replacements and associated works has progressed well despite heavy rainfall and flooding in late December. Over 3500 High Priority Defect repairs have been undertaken so far this financial year which is around 55% of targeted annual repairs. During the final two months of the year, we estimate an increase in activity to achieve around 80% of targeted repairs by year end. The levels of rainfall experienced in 2012 has increased the number of reactive tasks that have had to take priority over planned work due to flooding events and general ground stability issues.

8.2 Major Works

The Major Works Programme continues to be on track with significant repairs to Netherton Tunnel in the Black Country, the relining of a further section of the Monmouthshire & Brecon canal in South Wales, the repair of Cooper Bridge Weir in Yorkshire and breach repairs on the Trent & Mersey canal.

8.3 Breach works

Works were completed ahead of schedule at Croxton before Christmas. Works to repair the much larger breach at Dutton have commenced following detailed design and logistical analysis. Unfortunately, it is highly unlikely that repairs can be completed before the Easter period and re-opening is likely to be in time for the first May Bank Holiday. Around 7500m³ of stone will need to be delivered to site and a further 3000m³ of material may have to be removed involving over 1500 lorry movements in a rural area. Current cost estimates indicate a possible final total of £2m for the Dutton site together with £450k already incurred for the Croxton repair.

8.4 Flood and high rainfall

8.4.1 Flooding

The very heavy rain during late December in the South West and Midlands tested the network and our operational teams in those areas. Although a number of waterways, particularly rivers, had periods of closure due to high levels, no significant damage was caused although a small number of work sites were flooded out incurring some additional cost.

8.4.2. Soil Saturation

According to British Geological Society research the number of landslips occurring in the UK in 2012 increased fivefold compared with previous years. The main causes of this significant increase are:

- Water loading of slopes
- Reduction in soil strength
- Removal of soil particles

8.4.3 Our experience supports these findings as we have experienced a much higher number of earth slips than in any previous year, most notable being the Dutton breach and a third party embankment slip on the Leicester Line over the Christmas period. This evidence is being factored in to our risk management processes particularly the work we are doing on embankment breach modelling.

9. Legal

9.2 Growth and Infrastructure Bill

This Bill, at an advanced stage in its passage through Parliament, removes certain hurdles required for the compulsory acquisition of statutory undertakers operational land where the proposed development is considered by the Secretary of State to be nationally significant. The Bill extends such developments beyond infrastructure developments to substantial commercial developments.

The Trust was neither alerted nor consulted by Government of these provisions (notwithstanding the Memorandum of Understanding with Defra) which have implications for the integrity of the Waterways Infrastructure Trust Settlement - particularly as regards the impact on non-navigational use of the waterways.

Urgent steps are being taken to press Defra to address the threat and to alert parliamentarians to the issue and an update will be given at the Board meeting

9.2 Canal & River Trust v. Ward

Judgement in this enforcement case was handed down at Bristol Combined Courts centre last month. The case had some significance as various aspects of the Trust's powers to charge fees, in particular a late payment charge, was challenged. Human Rights and Equality Act issues were also raised. The Defendant was assisted by Mr Nick Brown of the National Bargee Travellers Association and indeed the Judge recognised the pleadings and arguments of the defendant were prepared by Mr Brown. His Honour Judge Denyer found in favour of the Trust on all issues, confirming the Trust was lawfully entitled to impose a Late Payment Charge, and granting the enforcement order sought by the Trust.

10. Property

10.1 Book Asset Valuation:

Following a competitive tender exercise, the Executive has selected GVA Grimley as preferred candidate to undertake annual and interim asset valuations for the property portfolio at a total cost of [Confidential information redacted].

[Confidential information redacted]. The methodology for the valuation is compliant with Charity SORP accounting standards.

The Investment Committee has been asked to approve the appointment on behalf of the Board and a verbal update will be provided at the Board meeting.

10.2 Investment Strategy:

Partners Capital has been engaged to support the Executive in producing the Trust's Investment Strategy. The Board will receive a recommendation to approve the Strategy at their meeting in March. It is likely that the Strategy will recommend a degree of diversification from the current "property only" approach.

10.3 Protector Appointment:

As the Board is aware, Odgers Berndtson is currently undertaking a search on behalf of the Board and Defra jointly for the appointment of a Protector to monitor compliance with an agreed Investment Strategy. The appointment is part of the contractual arrangements in respect of the funding contract with Government.

Odgers has approached an impressive list of candidates to undertake the role on a pro bono basis and the response to date has been good. The timetable for the appointment assumes a conclusion in early March and the final shortlisted candidates will be seen by the Chairman, the Chairman of the Investment Committee and the Chief Executive before final selection.

11. Marketing & Fundraising

11.1 On the ground

11.1.1. Winter Works Open Days

Our Open Day programme has restarted after Christmas with the first event at Marsworth (Grand Union) on 12 January attracting over 1000 people to get into the drained Lock 43 and many more to visit the site. Details of forthcoming events at <http://canalrivertrust.org.uk/winter-stoppages/open-days>

11.1.2. Volunteer Lock Keeper feedback

We have just announced the results of a survey of volunteer lock keepers, which showed that 99% said they planned to return this year and 70% said that 'keeping fit and active' was a major motivation. We are using the results to encourage more volunteer lock keepers to sign up and hope to double the numbers of recruits at 50 locations around the country. For more information visit:

<http://canalrivertrust.org.uk/news-and-views/news/appeal-for-public-to-unlock-iconic-waterway-role>

11.1.3 Partnerships

Working with Manchester and Pennine waterway partnership as a pilot, we have produced the first leaflet to promote individual partnerships and their work. We will be working with other partnerships to produce similar material as required.

11.2 Behind the scenes – public affairs

Our new public affairs agency, Champollion, began working with us this month and will be preparing a new public affairs strategy. As a first step they will be speaking to a range of people around the Trust including some trustees. To find out more contact Ed Fox. One of their first tasks has turned out to be supporting us in airing our concerns about the Growth and Infrastructure Bill (see item 8 above).

We will be submitting a response to Defra's triennial review of Natural England and the Environment Agency, in particular their proposal to transfer the EA navigations to the Canal & River Trust.

11.3 Coming soon

11.3.1 Volunteering deal agreed with Marks & Spencer

The fundraising and engagement teams have agreed a major partnership with Marks & Spencer which involves:

- An extension of their established staff clean-up programme from beaches to inland sites
- Over 1000 M&S staff working at c.45 locations across our network (22 April to 28 April)
- [Confidential information redacted]
- Major shared publicity and their brand endorsement

The partnership has a provisional announcement date of 28 January.

11.3.2. Visitor campaign – summer 2013

After a full tender process McCann Erickson has won the pitch for our 2013/14 visitor marketing campaign. They will again concentrate on delivering door-drops to areas near our key destinations that match the donor profile (reach: c.1million households). They will also be using email marketing and photo competitions and uploads to further engage new visitors and gather data for our fundraising team.

11.3.3 Angling strategy

We have begun discussions with The Angling Trust to explore partnership opportunities in relation to increasing participation and engagement. The Angling Trust has recently secured funding from Sport England and the Environment Agency to increase participation. Internally, local partnership boards and 300 angling clubs are being consulted on a new Canal & River Trust angling strategy. It is intended to present a draft of this strategy for Trustees to review in March.



ROBIN EVANS

January 2013

MEMORANDUM TO THE BOARD

FINANCE REPORT – JANUARY 2013

Report by the Finance Director

1.0 PURPOSE

1.1 The report provides an explanation of:

- the cash position and emerging debt strategy,
- income and expenditure reports including F8 forecast
- the draft Plan financial output from the annual Operational Planning process,
- the in-year KPIs report.

2.0 RECOMMENDATION

2.1 Trustees are recommended to note and comment on the information in this report.

3.0 CASH AND DEBT

3.1 The trading cash position continues to fluctuate within the established ranges of £25m to £35m. There are no matters of interest to report.

3.2 The Investment Capital bank account currently stands at £9m and is in line with the plan to invest surplus cash resources into property investments.

3.3 **[Confidential information redacted].**

4.0 INCOME AND EXPENDITURE

- 4.1 As reported at the last meeting, a paper setting out our proposed “nil value” accounting for the waterway land and assets has been prepared and sent to Grant Thornton for comment. The intention is to seek a meeting with the Charity Commission to seek their views. We are currently waiting for GT to arrange the introduction to the CC.
- 4.2 A technical paper has been submitted to the finance officer at Defra seeking amendments to the Grant Agreement to clarify the Reserves accounting for the provisions of that agreement, namely the creation of the Protected Endowment. A meeting with Defra is scheduled for Friday 18th January 2013. The involvement of the Defra legal team will be necessary.
- 4.3 The F8 forecast presented in SORP format will be presented to the Audit Committee meeting on 13th February 2013. Work is well advanced on this but the matter is quite complex and the financial statements prepared under the SORP will look very different from the CRT management accounts and the previous BW financial statements.
- 4.4 The actual financial statements for CRT will reflect the nine month period from 2nd July 2012 to 31st March 2013. The management accounts are presented for the full year to March 2013 for ease of comparison.
- 4.5 The management accounts for the eight months to November 2012 together with the F8 full year forecast are shown in detail in appendices A and B. The main point to note is that the additional Major Works of £4m can be funded and the works are on course for delivery.

5.0 DRAFT OPERATIONAL PLAN

- 5.1 The Operational Plans have been prepared for the Income generating and National Teams areas of the Trust’s operations. Collectively, this is referred to as “above the line”. Below the line is the Charitable Purposes expenditure the Plans for which will be available during February. The draft Plan is explained in appendix C.
- 5.2 The Executive has completed a first review of the Plans and the review process is continuing with particular focus on the National Teams costs. Two meetings of the Strategic Planning Committee have been held and further is planned to consider the final draft Plans including the below the line areas.

6.0 KPIs

6.1 The KPIs report is attached at appendix D. There are three amber indicators.

- The Priority One defect rectifications were behind schedule as at month 8 but the delay is forecast to be recovered by the year end,
- Employee Absence has shown a slight increase over the year and investigations are in hand to understand the cause,
- Voluntary income is behind Plan due to the delay in launching the Trust (compared with the Plan assumptions).



P Ridal
January 2013

MEMORANDUM TO THE TRUSTEES

Appendix A – Year to Date Results – 8 Months

Figures in £k

	Year to Date			Full Year		
	Actual	Original Plan	Variance	F8 Forecast	Original Plan	Variance
Contribution						
Generated Funds and Investment Income						
Investment Property	18,097	17,350	747	27,318	27,204	114
Boating and Moorings	16,619	15,920	699	23,742	23,600	142
Utilities	14,630	14,575	55	21,901	21,980	(79)
Olympic Games	1,579	950	630	1,525	950	576
Marinas Subsidiary	731	634	97	1,027	1,041	(14)
CRT Share of Joint Ventures	(850)	(641)	(210)	(387)	61	(448)
Voluntary Income and Fundraising	(229)	(676)	447	(738)	(748)	10
Net Interest	1,170	974	196	1,055	1,036	18
Total Generated Funds and Investment Income	51,747	49,087	2,660	75,444	75,124	320
Governance						
Governance	(443)	(442)	(0)	(706)	(678)	(28)
National Teams	(19,241)	(20,724)	1,483	(30,168)	(30,345)	178
Total Governance and National Teams	(19,684)	(21,166)	1,483	(30,874)	(31,024)	150
Contingency						
Contingency	-	-	-	-	(2,000)	2,000
Pension Deficit Funding	(4,126)	(4,667)	541	(6,459)	(7,000)	541
Charity Transition	(1,639)	(757)	(883)	(1,795)	(757)	(1,038)
Net Incoming Resources before Defra Funding	26,298	22,497	3,801	36,316	34,343	1,972
Defra Funding						
Defra Funding	26,181	26,417	(236)	39,181	39,626	(445)
Total Net Incoming Resources	52,479	48,914	3,564	75,497	73,969	1,527
Charitable Activities						
Waterway Maintenance and Repair	(34,749)	(37,708)	2,959	(57,593)	(57,192)	(402)
Major Works	(11,112)	(13,379)	2,267	(21,500)	(17,534)	(3,966)
Enterprise (Third Party Funded Projects)	(804)	(1,262)	458	(1,388)	(1,660)	272
Museums and Attractions	(495)	(435)	(60)	(1,342)	(991)	(350)
Total Charitable Activities	(47,160)	(52,784)	5,624	(81,823)	(77,377)	(4,446)
Surplus/(Deficit)	5,319	(3,870)	9,189	(6,326)	(3,407)	(2,919)

- A.1 The statement above presented to show the Contribution for period 8 and the full year forecast, F8.
- A.2 There is a positive variance at the “Net Incoming Resources” level for the year to date of £3.6m (compared with Plan) which is mainly due to a number of timing differences most of which are forecast to eliminate by the year end. Note that the variance on the same line for the full year reduces to £1,527k
- A.3 The waterway expenditure is behind Plan by £5.2m but is predicted to catch up over the remaining four months and deliver the additional £4m of spend included in the forecast.

Appendix B – Full Year Forecast

Figures in £k

Full Year	Income	Costs	Contribution		
	F8 Forecast	F8 Forecast	F8 Forecast	Original Plan	Variance
Contribution					
Generated Funds and Investment Income					
Investment Property	35,245	(7,927)	27,318	27,204	114
Boating and Moorings	31,539	(7,798)	23,742	23,600	142
Utilities	22,869	(968)	21,901	21,980	(79)
Olympic Games	3,285	(1,760)	1,525	950	576
Marinas Subsidiary	6,973	(5,946)	1,027	1,041	(14)
CRT Share of Joint Ventures CBT *	9,595	(9,982)	(387)	61	(448)
Voluntary Income and Fundraising	814	(1,552)	(738)	(748)	10
Interest	3,817	(2,729)	1,055	1,036	18
Total Generated Funds and Investment Income	114,139	(38,662)	75,444	75,124	320
Governance					
Governance	12	(718)	(706)	(678)	(28)
National Teams	1,403	(31,570)	(30,168)	(30,345)	178
Total Governance and National Teams	1,415	(32,288)	(30,874)	(31,024)	150
Contingency					
Contingency	-	-	-	(2,000)	2,000
Pension Deficit Funding	-	(6,459)	(6,459)	(7,000)	541
Charity Transition	0	(1,795)	(1,795)	(757)	(1,038)
Net Incoming Resources before Defra Funding	115,553	(79,205)	36,316	34,343	1,972
Defra Funding					
Defra Funding	39,158	23	39,181	39,626	(445)
Total Net Incoming Resources	154,711	(79,181)	75,497	73,969	1,527
Charitable Activities					
Waterway Maintenance and Repair	6,775	(64,369)	(57,593)	(57,192)	(402)
Major Works	190	(21,690)	(21,500)	(17,534)	(3,966)
Enterprise (Third Party Funded Projects)	6,586	(7,974)	(1,388)	(1,660)	272
Museums and Attractions	731	(2,073)	(1,342)	(991)	(350)
Total Charitable Activities	14,282	(96,106)	(81,823)	(77,377)	(4,446)
Surplus/(Deficit)	168,993	(175,287)	(6,326)	(3,407)	(2,919)

N.B. Figures include results of BW for April to June 2012

* Costs include Net Interest and Profit/(Loss) on Disposal

B.1 The main forecast variances against Plan for the full year are:

- * Olympics – ships and super yachts more than compensated for lower than expected leisure moorings income. Additional income was also earned from Water Chariots, phone masts and water abstraction,
- * JVs – the development site at Thurrock (in Isis) has been sold at auction for below the amount in the Plan but has raised cash for use on the Brentford development site,
- * Charity Transition – cost were higher due to the unplanned delay of the launch to July, additional costs of the Pension Fund on the Pension Funding partnership structure and the Government guarantee,
- * the favourable variance on pension deficit funding is due to the delayed launch of the Trust,
- * the adverse variance on Museums is due partly to additional expenditure on property repairs and an income downturn at Gloucester,
- * the spend on waterway maintenance continues to be forecast at £4m greater than the Plan. This is partly funded from the release of the £2m contingency.

Appendix C – Draft Plan for 2013/14 – Net Incoming Resources

	Figures in £k		
	2012/13	2013/14	
	F8 Forecast	Plan	Variance
Contribution			
Generated Funds and Investment Income			
Investment Property	27,318	28,538	1,220
CRT Trading CIC	-	9	9
Boating and Moorings	23,742	23,828	86
Utilities	21,901	22,043	142
Olympic Games	1,525	-	(1,525)
Marinas Subsidiary	1,027	1,259	232
CRT Share of Joint Ventures	(387)	270	657
Voluntary Income and Fundraising	(738)	(501)	237
Net Interest	1,055	508	(546)
Total Generated Funds and Investment Income	75,444	75,955	511
Governance			
National Teams	(706)	(665)	41
	(30,168)	(30,925)	(758)
Total Governance and National Teams	(30,874)	(31,590)	(717)
Contingency			
Pension Deficit Funding	-	-	-
	(6,459)	(7,000)	(541)
Charity Transition	(1,795)	-	1,795
Net Incoming Resources before Defra Funding	36,316	37,364	1,049
Defra Funding			
	39,181	39,000	(181)
Total Net Incoming Resources	75,497	76,364	867
Charitable Activities			
Waterway Maintenance and Repair	(57,593)		
Major Works	(21,500)		
Enterprise (Third Party Funded Projects)	(1,388)		
Museums and Attractions	(1,342)		
Total Charitable Activities	(81,823)	(81,364)	459
Surplus/(Deficit)	(6,326)	(5,000)	1,326

C.1 The schedule above shows the draft Plan down to the “Total Net Incoming Resources Line”. The final Plan will include a contingency of £2m but it has been removed here to make the comparison easier with the F8 forecast for the current year.

C.2 Compared to this year there are material increases for investment property income due the recent new investments, and also for JV income where the Isis residential development at Brentford is expected to yield some profit in 2013/14 from the sale of the first 15% of the units. Interest reduces as the loan notes due from CW are partially repaid (the funds are reinvested in property investments).

C.3 [Confidential information redacted].

C.4 National teams costs show an increase that is mainly due to an increase in the Marketing budget for the following areas to contribute towards the Awareness, Interest, Desire, Action marketing strategy:

£225K for increased digital marketing

£100K to increase volunteer education visitors

£85K to recruit and service a new front of house volunteer force at key destinations

£45K for an arts or angling outreach programme

C.5 The National Teams area includes the departments for Engineering, Water, Environment and Heritage where some additional cost (compared with the current year) is proposed as these functions start to gear up for the increased levels of waterway expenditure that is forecast for 2014/15 and onwards.

C.6 The Plans for expenditure on Charitable Purposes areas are in the course of being prepared and will be reviewed in February. However the current plan showed that total net incoming resources (see annex C) will be £76,364K which is very similar to the £75,497K for the current year. In addition Trustees have already agreed to incur a further £5m deficit next year funded from accumulated cash reserves. This will increase the total spend to £81,364K again similar to this year's £81,823K.

C.7 Additional demands on the "below the line" budget for 2013/14 are:

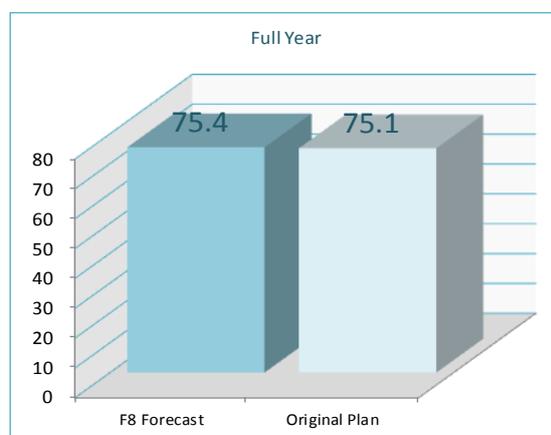
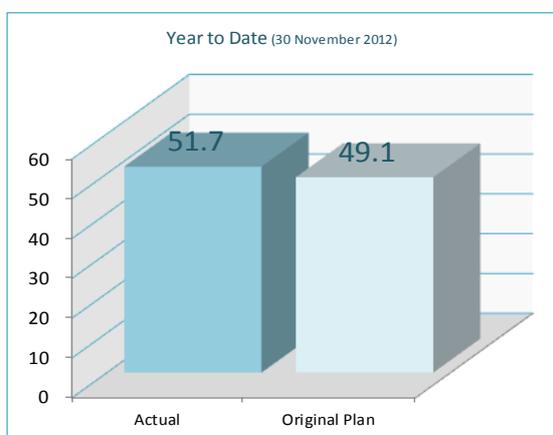
- [Confidential information redacted].

Appendix D – In Year Key Performance Indicators

In Year KPIs

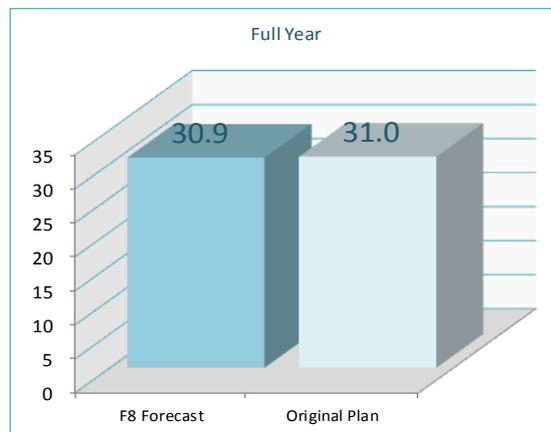
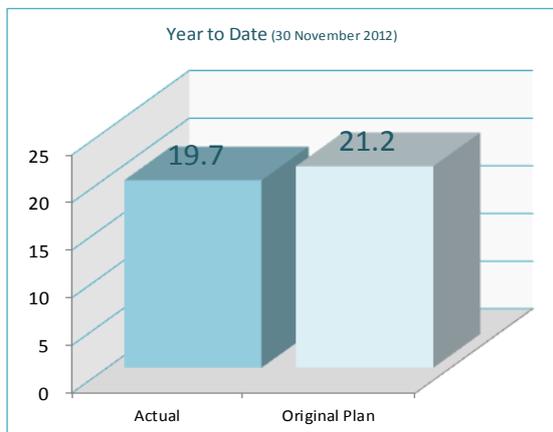
Total Net Income - Generated Funds and Investment Income

	Year to Date (30 November 2012)			Full Year			Status
	Actual	Original Plan	Variance	F8 Forecast	Original Plan	Variance	
Investment Property	18,097	17,350	747	27,318	27,204	114	
Boating and Moorings	16,619	15,920	699	23,742	23,600	142	
Utilities	14,630	14,575	55	21,901	21,980	(79)	
Olympic Games	1,579	950	630	1,525	950	576	
Marinas Subsidiary	731	634	97	1,027	1,041	(14)	
CRT Share of Joint Ventures	(850)	(641)	(210)	(387)	61	(448)	
Voluntary Income and Fundraising	(229)	(676)	447	(738)	(748)	10	
Net Interest	1,170	974	196	1,055	1,036	18	
Total Net Income	51,747	49,087	2,660	75,444	75,124	320	



Expenditure on Governance and National Teams

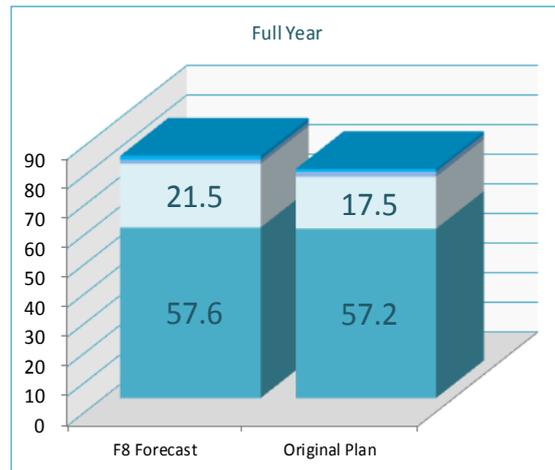
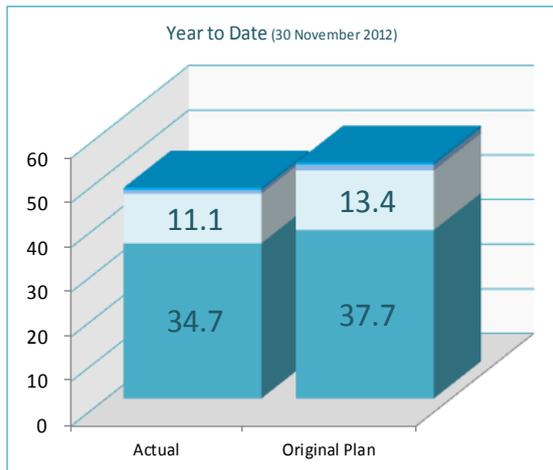
	Year to Date (30 November 2012)			Full Year			Status
	Actual	Original Plan	Variance	F8 Forecast	Original Plan	Variance	
Governance	443	442	(0)	706	678	(28)	
National Teams	19,241	20,724	1,483	30,168	30,345	178	
Governance and National Teams	19,684	21,166	1,483	30,874	31,024	150	



Expenditure on Charitable Purposes

	Year to Date (30 September 2012)			Full Year		
	Actual	Original Plan	Variance	F8 Forecast	Original Plan	Variance
Waterway Repairs and Maintenance	34,749	37,708	2,959	57,593	57,192	(402)
Major Works	11,112	13,379	2,267	21,500	17,534	(3,966)
Enterprise (Third Party Funded Projects)	804	1,262	458	1,388	1,660	272
Museums and Attractions	495	435	(60)	1,342	991	(350)
Expenditure on Charitable Purposes	47,160	52,784	5,624	81,823	77,377	(4,446)

Status

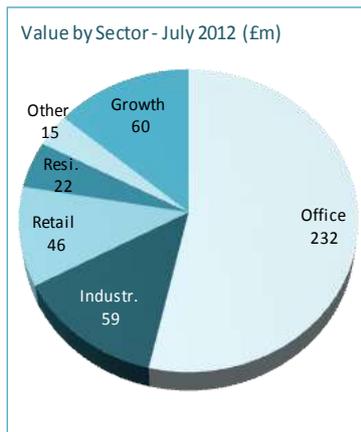
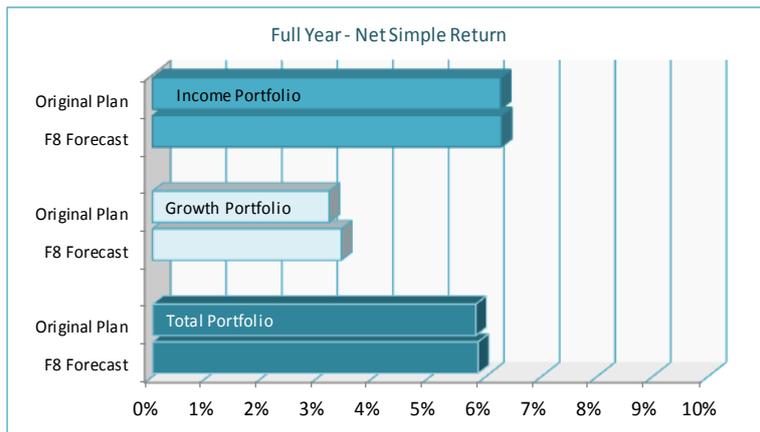


Investment Property Returns

	Full Year - Net Simple Return *		
	F8 Forecast	Original Plan	Variance
Income Portfolio - CRT Managed	6.3%	6.4%	(0.1%)
Income Portfolio - Outsourced	6.3%	6.2%	0.1%
Income Portfolio	6.3%	6.3%	0.0%
Growth Portfolio	3.4%	3.2%	0.2%
Total Portfolio	5.9%	5.8%	0.0%

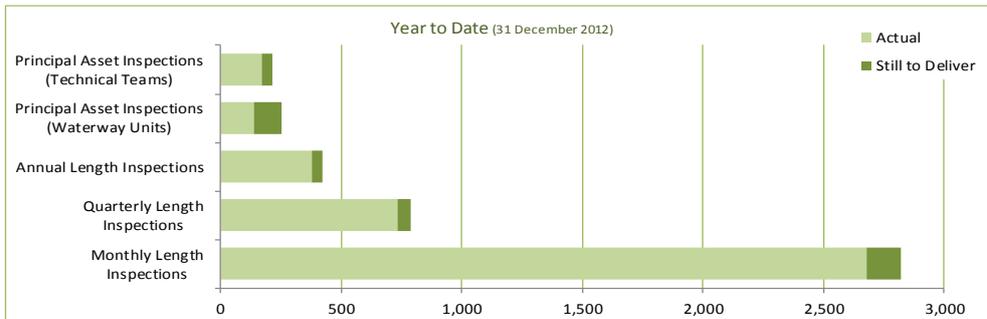
$$* \text{ Net Simple Return} = \frac{\text{Income} - \text{Costs}}{\text{Opening Capital Value}}$$

Status



Infrastructure Risk Management - Number of Inspections

	Year to Date (31 December 2012)			Full Year		Status
	Actual	Due	Still to Deliver	Due	Still to Deliver	
Monthly Length Inspections	2,678	2,819	141	4,052	1,374	█
Quarterly Length Inspections	732	789	57	1,198	466	
Annual Length Inspections	380	420	40	534	154	
Principal Asset Inspections (Waterway Units)	138	255	117	359	221	
Principal Asset Inspections (Technical Teams)	173	217	44	343	170	
Total Number of Inspections	4,101	4,500	399	6,486	2,385	



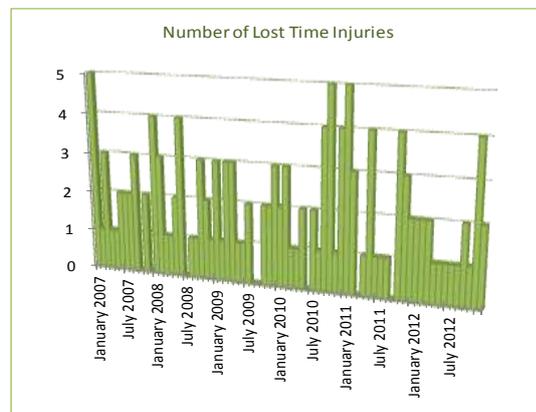
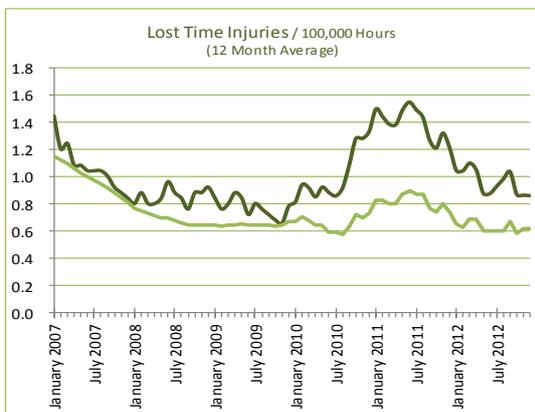
Priority One Defects Repaired

	Year to Date (31 December 2012)	Full Year	Still to Deliver	% Delivered	Status
	Actual	Original Plan	Plan - Actual	Actual	
Number of Priority One Notifications	3,505	6,417	2,912	54.6%	█



Safety - Lost Time Injuries

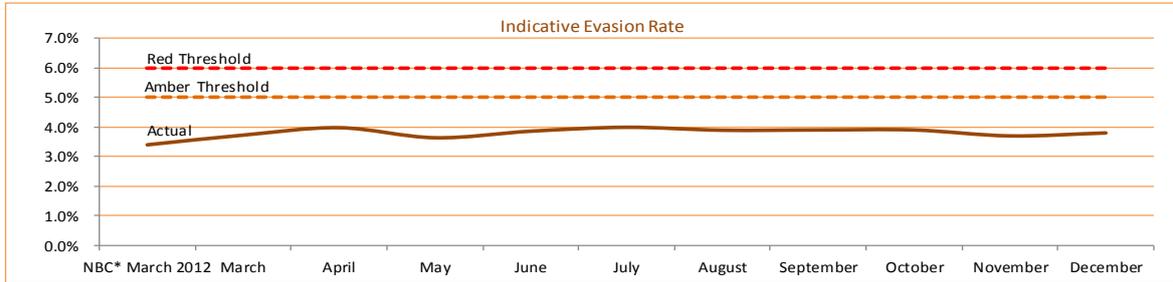
	Number of Lost Time Injuries	Lost Time Injuries / 100,000 Hours	Change since September 2012	Status
	Actual (Rolling 12 Month Total)	Actual (12 Month Average)	Change since September 2012	
█ All Waterway Units	16	0.86	16.9%	█
█ All CRT	20	0.62	7.0%	



Licence Evasion

	31 December 2012	NBC* March 2012	Variance	March 2013	Status
	Actual	Actual		Target	
Indicative Evasion Rate	3.8%	3.4%	(0.4%)	< 5.0%	■

* NBC = National Boat Check



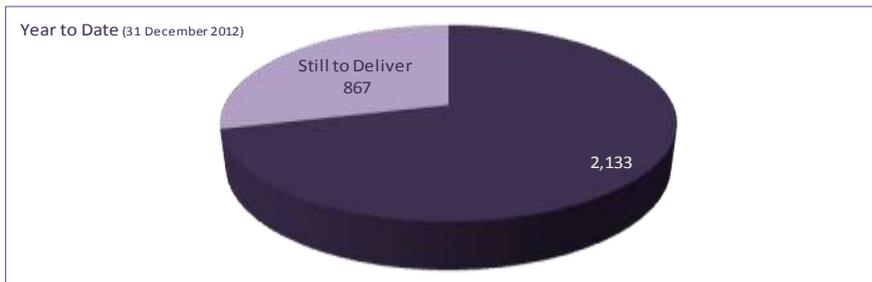
Average Days Absence per Employee

	31 December 2012	30 September 2012	30 June 2012	Status
	Actual			
Finance	4.9	4.4	3.4	■
Marketing	4.5	4.3	5.5	
Property	5.3	4.2	3.7	
Technical	1.9	1.9	1.7	
Corporate Services	-	-	-	
HR	3.7	3.7	3.7	
BWML	8.2	6.6	5.5	
Operations	8.7	8.3	7.8	
Total	7.3	6.7	6.3	

Number of Friends

	Year to Date (31 December 2012)	Full Year *	Still to Recruit	% Recruited	Status
	Actual	Original Plan	Plan - Actual	Actual	
Donors with an active pledge	2,133	3,000	867	71.1%	■

* Adjusted for delayed launch



Voluntary Income

	Year to Date (30 November 2012)			Full Year *			Status
	Actual	Original Plan	Variance	F8 Forecast	Original Plan	Variance	
Individual Giving	131	170	(39)	264	407	(143)	■
Leadership Giving	451	228	224	550	580	(30)	

* Not adjusted for delayed launch

Volunteer Days

	Year to 31 December 2012	Full Year Plan	Status
	Actual	Original Plan	
Number of Volunteer Days	27,993	40,000	■

MEMORANDUM TO THE BOARD

WATERWAYS PENSION FUND INVESTMENT STRATEGY JANUARY 2013

Report by the Finance Director

1.0 PURPOSE

- 1.1 The purpose of this paper is to seek the Trustees approval to:
- (a) the revised investment strategy proposed by the Trustees of the Waterways pension Fund, and
 - (b) to delegate to the CRT property and Investment Committee the power to manage the CRT Accumulation Fund that is proposed to be created for the purpose of repaying any future deficit on the Waterways Pension Fund.

2.0 RECOMMENDATION

- 2.1 Trustees are recommended to:
- approve the new investment strategy for the waterways Pension Fund as set out in section 4 of the this paper, and
 - delegate power to the CRT Investment and Property Committee to create and manage the CRT Accumulation Fund to be funded at the rate of £2m p.a.

3.0 CONTEXT

- 3.1 The assets in the PF are categorised between return seeking assets, such as equities, absolute return funds and property, and liability matching investments such as corporate bonds and gilts. The liability matching assets are so called because the valuation of pension fund liabilities is done by taking the present value of the future cash flows and discounting them using a long term fixed interest rate. The consequence of this is that the value of the liabilities moves in line with the gilts and corporate bonds market values.
- 3.2 Some pension funds have chosen to invest only in liability matching investments because it reduces the risk of funding mis-matches when markets move. Others adopt a mixed approach with some return seeking assets and some matching assets. Some actuaries advise that the pensioners' pension liabilities should be matched by gilt/bonds and the active pension scheme members (those still at work) can reasonably be matched by return seeking assets. Historically, the Waterways PF has used a balance of 55% in return seeking investment and 45% in matching assets. This split has reflected the Waterways PF pension liabilities which are split 55% for Actives and Deferreds and 45% for Pensioners.

- 3.3 The statutory guidance requires that PF Trustees should take professional written advice on the Investment Strategy and should consult with the sponsoring employer. This paper seeks to fulfil that consultation process. The investment advisor is Buck Global Investment advisors who were appointed in [date] after a tender process. Prior to that, the advisor was LCP. The guidance also provides that the strategy should be reviewed periodically. The circumstances around the creation of CRT, the Pension Funding Partnership structure, and the Defra guarantee provide for a sufficient change in circumstances to make it necessary to review the investment strategy.
- 3.4 The investment strategy development and monitoring has been delegated by the PF Trustees to an Investment Sub Committee comprising the PF Chair of Trustees, two Employer nominated Trustees and one member nominated Trustee. The CRT Chairman and Finance Director also attend the Committee meetings by invitation. The major decisions of the Committee are approved by the PF Trustees.
- 3.5 In determining an investment strategy, the statutory guidance requires that, in summary:
- the PF Trustees must take professional advice and consult with the sponsoring employer,
 - the strategy must be based on an analysis of the liabilities of the fund and the expected returns from the assets over the long term together with volatility and risk,
 - the primary objectives are to provide security for the beneficiaries, achieve long term growth, and achieve a balance between risk and reward,
 - the investments should be diversified to spread the risk in the portfolio,
 - the PF Trustees should identify the key risk in the portfolio and review them regularly,
 - the portfolio of investments should be capable of exceeding the overall rate of return set out in the Scheme Actuary's valuation report,
 - the investments need to be capable of being realised to meet the liabilities as they are expected to fall due for payment.

4.0 CHANGE TO PF INVESTMENT STRATEGY

- 4.1 On the transition to CRT, the deficit in the Waterways PF was estimated at £111m by the Scheme Actuary (assets of £329m and liabilities valued at £440m). That valuation was after the £25m cash contribution from Defra. The increase in the deficit has been due to the marked reduction in gilt yields caused by the recession and quantitative easing.
- 4.2 The Pension Funding Partnership (PFP) structure was put in place to facilitate the transition to CRT. That included the transfer of two of CRT's prime investment properties into the PFP to act as security for the deficit. The PFP has a life of 19 years and is expected to be unwound at the end of its expected life in 2031.
- 4.3 The un-winding of the PFP structure, and funding of any deficit of the pension fund at that time, could be achieved by:
- selling the properties in the PFP for cash,
 - growth in the value of the PF investments, and thereby making good the deficit,
 - cash contribution from CRT (and thereby release of the properties back to CRT).

- 4.4 To avoid the disposal of the prime property investments in the PFP, we propose to pursue a combination of (a) creating of an accumulation fund in CRT whereby £2m p.a. is set aside into an investment fund to accumulate a cash sum that could be contributed to the PF in 2031, and (b) an active investment strategy in the PF to increase the probability of the PF assets increasing in value by 3031 to make good part of the deficit.
- 4.5 The key proposal of the change to the PF investment strategy is to increase the return seeking assets to 66% of total assets, and correspondingly reduce the matching assets to 33%.
- 4.6 The table below shows the assets in the portfolio as at September 2012, as compared with the most recent full actuarial valuation as at March 2010:

Pension Fund Investments £ms

Return Seeking Investments	Sep-12	%	Mar-10	%
Equities				
UK	52.9		52.3	
Overseas	52.5		52.3	
Total equities	105.4	32%	104.6	38%
Absolute Return/Diversified growth	26.2	8%	16.5	6%
Cash pending investment (incl Defra £25m)	39.2	12%	11	4%
Property funds	28.2	8%	27.5	10%
	199.0	60%	159.6	58%
Liability Matching Investments				
Corporate bonds	42	13%	38.5	14%
Index linked Gilts	91.5	28%	77	28%
	133.5	40%	115.5	42%
Total Assets	332.5	100%	275.1	100%
Increase	57.4			

- 4.7 The advice to the PF Investment Sub Committee considered the probability of higher return and risk of increasing the return seeking portion of the portfolio to 70%. Similarly, a reduction to 40% was also considered. The analysis was theoretical, but, by taking a 19 year time horizon, it focussed on the possibility of locking in some gains after a period of good performance and then reducing risk in the portfolio by changing the balance towards liability matching assets.
- 4.8 **The conclusion of the PF Investment Sub Committee was to increase the return seeking assets to 66% of the portfolio total with the balance being in matching assets. This is primary risk in the new strategy that the CRT Trustees need to consider.**
- 4.9 The PF Trustees have endorsed the new strategy which is set out in Item 4.10 on the following page in the table. The Target Allocations are shown in the table overleaf. The key proviso is that the balance between Return Seeking and Matching assets must be maintained at approximately 66%/33%. The strategy allows for a control range of +/- 5% either side of the Target Allocation before, due to market value fluctuations, the Trustees must take action to rebalance the portfolio to comply with the target ranges. Defra have also given their approval for the new strategy, as required under the PF guarantee.

- 4.10 The Medium Term Asset Allocations shown below are the ranges within which the Trustees, in exceptional market conditions, may adjust the Target Allocations to reflect the outlook for medium term returns, subject to maintaining the 66%/33% balance between Return Seeking (66%) and Matching Assets (33%).

Target Asset Allocations	Target Allocations %	MTAA Ranges %
Return Seeking Investments		
Equities		
UK	13.3	5-20
Overseas	13.3	5-20
Emerging markets	10	5-15
Total equities		
Absolute Return/Diversified growth	10	5-15
Property	10	0-20
Property Income	5	0-20
Private Equity/Infrastructure	5	0-10
	66.6	
Liability Matching Investments		
Corporate bonds	11.1	0-20
Index linked Gilts	11.1	0-20
Global Bonds	11.1	0-20
	33.3	
Total Assets	100	

5.0 CRT ACCUMULATION FUND

- 5.1 As mentioned in 4.4 above, the financial strategy for CRT has adopted an assumption that £2m p.a. will be set aside into an accumulation investment fund (in CRT's name). The annual payments of £2m will be funded from the revenue account and be a transfer into a designated fund. The Income Statement in CRT's management accounts makes an allowance for this transfer.
- 5.2 The purpose of the Fund is to create a fund of liquid investments that may be used to make a contribution to the Waterways Pension Fund, in such amount as may be needed at the time, for the purpose of releasing to CRT the investment properties in the Pension Funding Partnership when that structure matures in 2031.
- 5.3 At a tax free accumulation rate of 6% p.a., the accumulation rate of £2m p.a. will produce a fund of £67.5m by 2031. This may not be sufficient to achieve a full release. The deficit in the WPF will depend upon the actual investment performance of the pension fund assets, compared with pay and pension inflation, and pensioner mortality.



P M Ridal
21 June 2013