

3 Strategy and planning

Introduction

3.1. This chapter reviews the development of BWB's strategy since the mid-1980s and BWB's planning. It also discusses some of the difficulties of strategy development, drawing on the results of various exercises carried out or commissioned by BWB.

3.2. In 1984, BWB agreed a statement of objectives with the DoE. This began:

1. Consistent with its statutory obligations and powers, the Board should, so far as practicable, run its affairs on a commercial basis.
2. In promoting the fullest practicable use of the waterways for leisure, recreation and amenity, and for freight transport where appropriate, the Board should aim (a) to achieve value for money in all its activities including the maintenance of waterways, (b) to secure an adequate rate of return on specific activities and (c) consistently with its other objectives to increase opportunities for private sector participation in the business for example through direct investment, joint ventures, asset sales, contracting out and hiving off. By these means the Board's demands on Exchequer funds should be kept to a minimum.
3. The Board should comply with financial targets and external financing limits set by the Secretary of State and should achieve performance aims, agreed with the Secretary of State, for manpower and other operating costs for each part of the Board's activities. Proposals by the Board for capital investment should be subject to proper investment appraisal as in the Department's guidelines dated 25 May 1983. Those outside the delegated limits agreed from time to time between the Secretary of State and the Board should be submitted for approval. The currently agreed limit for this is £200,000.

3.3. The objectives specifically required the Board to develop and adopt a Corporate Plan, to be updated annually, and the setting of performance aims and indicators. (The statement is reproduced in full in Appendix 2.2.)

3.4. In the few years following the 1984 statement, as the relevant BWB Annual Reports and other material make clear, BWB's behaviour became more commercially motivated. A determination was expressed to get value for money in all operations and, by increasing profitable activities, to reduce dependence on grant. Customers and potential customers were identified and BWB's perceived need to be responsive to them was reflected in organizational and cultural change. It was also reflected in BWB's Mission Statement, which was adopted in 1989 in its present form, though foreshadowed in earlier statements:

Our business is the efficient management of the inland waterways system for the increasing benefit of the Nation. We seek to expand business on the waterways by pursuing a commercial approach, providing a safe and high quality environment for customers, staff and local communities, and aiming for excellence in every aspect of our work. The waterways heritage and environment will be conserved, enhanced and made viable for future generations.

3.5. The first Corporate Plan produced in 1984 covered the ten years 1985/86 to 1994/95, identifying priorities and setting timetables for key actions. With the introduction of supporting three-year rolling plans, revised annually, it developed into a two-tier system. This has now been replaced by a single four-year Corporate Plan. With the resultant clarification of objectives, the desirability of an integrated business strategy was identified and appraised.

The Integrated Business Strategy and its choice

3.6. The IBS was proposed by BWB in 1988. BWB's summary description of the IBS is at Appendix 2.3. The IBS is an approach which recognizes the interdependencies and synergies between different aspects of BWB's activities, such as property management and leisure. Its aim was and is to generate additional funds to invest in high-return projects which provide revenue streams, reduce operating costs and improve waterway standards, accelerating a more commercially orientated approach throughout BWB.

3.7. The IBS was one of four strategic options which were formally compared in 1989. The other three options involved property disposal over three, five and ten years respectively. The IBS option was approved by the Government in February 1990. Its implementation necessarily led to a reorganization of BWB, in which individual waterways became the business unit and Waterway Managers, with their exposure to local user and other concerns, the front-line business managers.

3.8. The methodology used for comparing the strategic options was essentially an analysis of the NPV of BWB consequent on each option. The only assumptions about effects that differed between the options were:

- (a) that BWB would achieve, in due course, higher productivity gains under the IBS than under the other options;
- (b) that forced property sales would lead to lower realizations; and
- (c) that BWB had scope for investments generating commercial yields.

These assumptions were justified in turn by:

- (d) results of independent research;
- (e) appropriate professional advice; and
- (f) BWB's credibility as a partner in relevant developments.

3.9. Since its adoption the IBS has been the main plank of BWB's strategy, although, as now admitted, it was not in itself a complete strategy. It did not set out a strategic line on aspects of leisure not related to property development, on amenity or on heritage, nor did it imply integrated management as a necessary means of its pursuance. It was not a blueprint for managerial action and left open the question of how its intended effects were to be achieved. However, although no assumptions were made about the possibly differing effects of the various options on factors such as amenity, environment and heritage, the DoE told us the presumption was that substrategies to balance all the various factors would be set out in waterway, regional and corporate plans.

3.10. In addition BWB told us that the IBS was not and is not intended to provide accurate financial forecasts. BWB also told us that the 1989 financial comparison of the IBS with property disposal options was that and no more. BWB argued that if a financial comparison was called for (and BWB believed it was), then for the purposes of that comparison the financial features of the IBS acquired prominence. BWB said that the financial evaluation was not of itself the sole criterion for choosing the IBS and wider discussions did indeed cover, for example, amenity, heritage and environment. BWB maintained that the IBS met desired standards on these matters as well as passing a financial test.

The IBS in action

3.11. Three years have elapsed since the formal approval of the IBS. Its principles have been widely adopted and planning and actions at all levels have been influenced by it. Events not foreseen in 1989, particularly the collapse of the property market and the effects of the recession on leisure activity, have influenced both the rate at which the actions implicit in the IBS could be taken, and the outcomes of those actions which have been taken.

3.12. In 1993 BWB decided to update the 1989 exercise. This 1993 study, in all essentials, repeated the 1989 exercise with the same criterion and the same options. The assumptions were revised in the light of experience of the intervening years and included the new possibilities of exploiting BWB's network for telecommunications and water transport. The IBS was again revealed as financially superior to the property disposal options with which it was compared.

3.13. As part of the 1993 study, BWB's achievements under the IBS were assessed. Separately, BWB's description of the IBS (see Appendix 2.3) included a statement of the benefits of the IBS. Generally, the achievements and benefits identified were those to which monetary values can be attached. However, rather more facets of BWB's activities were included in these assessments, taken together, than are included in the comparison exercises. In particular, attainment of waterway standards was included. The assessments attributed most improvements in BWB to the IBS, thereby making the IBS synonymous with the way BWB has been managed. BWB believed these assessments confirmed the success of the IBS.

Strategy review

3.14. BWB is required by the Government to review strategy from time to time. A review, undertaken in conjunction with consultants, was completed in July 1993. In this review, five options for the future structure of BWB were considered for submission to the DoE:

- (a) continuation of the present structure and the IBS;
- (b) as (a), but with more radical commercialization while retaining the present structure;
- (c) privatization of BWB;
- (d) break-up of BWB, possibly with franchising of parts of the business; and
- (e) disposal of BWB's property arm.

3.15. The options were not compared in any formal quantitative sense. Rather the comparison was based on a discussion of means of making the options feasible, almost wholly in qualitative terms. The radical option that received most attention was a privatization option. In this option, a service-related subsidy would replace the grant-in-aid. The means of managing the presumed subsidy and of providing an appropriate regulatory framework were discussed at some length. BWB's review concluded that further commercialization was the appropriate next strategic step, with privatization a natural progression beyond that. Meanwhile, in May 1993, the Parliamentary Under-Secretary of State at the DoE said in the House of Commons: 'The Government have no intention, in this Parliament or any subsequent Parliament-so far as I am aware-of privatizing any part or the whole of British Waterways.'

The planning system

3.16. BWB regards its planning system as the medium by which much of the management of BWB is carried out and its strategies implemented. The system determines and sets the goals, the action plan and the budget for BWB as a whole, for each region and for each waterway; it provides cost and performance targets for accountability at every level; and it provides vehicles for consultation and negotiation with external bodies including the DoE at national level. The system dates, in its present form, from the reorganization completed in 1990 and is only now becoming firmly established.

3.17. The summary timetable and actions for formal plan production are:

- June: Central instructions and guidelines issued to regions (and thence to waterway managers) and to Head Office budget holders.
- June-Oct: Plan preparation, from each waterway up, including informal review of plans by functional and regional management and executive directors.
- October: Plan submission, consolidation at the centre, and analysis of projected outcomes.
- Nov-Dec: Regional and Head Office plans subject to scrutiny, debate and (where appropriate) modification.
- January: First draft of Corporate Plan.
- February: Draft submitted to Board and then to the DoE.
- March: Final Corporate Plan submitted to Board for approval and then sent to the DoE.

3.18. The process by which plans are produced is essentially 'bottom-up', subject to central guidance and stimulus. The 'unit' of the planning system is the waterway plan. Each year, formal central guidance is given to regions. The guidance issued in 1992 for the 1993/94 plan outlined the broad corporate objectives for the planning round, including corporate targets of, for example, income and staffing levels which should be taken into account in forming regional plans. Indicative targets for each region's performance, financial and otherwise, were given. Certain items were to be given special emphasis in the current year, and the reasons for this and the relationship of each item to corporate objectives are spelled out. The guidance also covered those matters which are established nationally (eg licence rates) and those where a BWB-wide view is thought desirable (eg forecasts of inflation and pay awards). Certain national or interregional activities were indicated as necessarily to be included in the plan. The form of, and content to be included in, the submitted plans were also specified. The formal guidance was augmented by the normal management process of discussions of plans, their formulation and reformulation. There are also several management conferences each year which stimulate and guide planning in various ways.

3.19. Regional plans are initiated by the production of waterway plans, each subject to regional guidance, similar to the guidance given from the centre to regions. Each Waterway Manager, assisted as appropriate by regional staff, produces his or her plan, namely a document setting out proposals for all resource expenditure, including manpower, and for revenue raising for four years ahead. The document, when finalized, becomes a blueprint for all managerial action on the waterway.

3.20. Regional plans are a consolidation of the relevant waterway plans, subject to due modification and allocation decisions in order to meet regional requirements, together with the plans for specifically regional functions. The Corporate Plan is likewise a consolidation of regional plans together with the plans of the various central functions. BWB told us that there was vigorous peer review as well as review by superiors before plans were finalized.

3.21. BWB regards a plan at any level as good if it satisfies each of a number of criteria, normally including:

- (a) it should reduce costs and increase revenues, or at least increase profit, compared with the current year's expected outcomes, taking like with like;
- (b) it should increase the level of attainment of various standards; and
- (c) it should improve, or at least not worsen, attributes for which there are no standards.

One-off pieces of work are incorporated in the waterway and regional plans as projects, and managed as such: their inclusion in the plan does not exempt them from individual justification at the due time. Alternative plans are essentially base plans with projects added or deleted, usually by bringing forward or

delaying intended projects. In this way, for example, when the waterway plans are aggregated in forming a regional plan, any balancing of competing waterway claims would usually be carried out by deleting or adding projects to individual waterway plans. (This would follow the modification of first plans: for example, if a Waterway Manager planned to devote what was in the region's view too much resource to an activity.)

Plan content: waterways and regions

3.22. The three kinds of plan—waterway, regional and corporate—naturally differ in the detail they provide but each covers four years (for the 1993/94 plan, 1993/94 to 1996/97 inclusive). Actual results are quoted for the last complete year (1991/92 in the case of the 1993/94 plan) and estimated results for the year in which the planning is taking place, together with the budget for the plan year and broad estimates for the subsequent three years.

3.23. A waterway plan depicts income and expenditure, first in summary but then in progressive detail, down to the level of, for example, the income from angling agreements with named clubs on the income side, and the employment costs for individuals on the expenditure side. Action programmes for each canal length are included. The document, or extracts from it, thus serves on the one hand as a budget and on the other as a detailed action plan.

3.24. The regional plan is a broader document with more commentary. It articulates the region's objectives and the key actions for their attainment in the plan year. It reviews, drawing on the local knowledge of Waterway Managers, the general state of the regional economy and the related opportunities and threats. Income and expenditure are reviewed under broad headings, such as leisure and maintenance. Income and expenditure plans, although less detailed than individual waterway plans, show, for example, individual capital projects and their scheduled costs. There are priority listings for various kinds of work, for example dredging, and (again drawing on the Waterway Managers' plans) plans for meeting various standards, including water quality. The regional plans provide the information in a form suitable for the compilation of the Corporate Plan.

The Corporate Plan

3.25. The waterway and regional plans as such serve purposes largely internal to BWB. The Corporate Plan, the combination of regional and head office plans, not only serves internal purposes but is also the prime basis for debate, negotiation and ultimately agreement between BWB and the DoE. It provides supporting justification for the investment and financing review (IFR) bid for grant for future years on which Ministers need to take decisions during the annual expenditure round.

3.26. The form of the Corporate Plan is in accordance with DoE guidelines for all DoE-sponsored bodies. (A check-list of required features is given at Appendix 3.1.) The DoE uses the Corporate Plan for three main purposes:

- (a) to satisfy Ministers about the strategy and objectives BWB is pursuing, and the outputs it is achieving for the resources made available;
- (b) to make an appropriate input to the annual public expenditure survey, and the determination of BWB's grant-in-aid; and
- (c) to provide a framework within which to assess and approve projects necessarily submitted to it.

3.27. In consequence, BWB's 1993/94 Corporate Plan comprises a 16-page executive summary, an 11-page review of the business and a 5-page review of operations. The remaining eight pages deal with special items outside the normal planning framework. There are 18 pages of supporting appendices. Capital and revenue budgets are given for 1993/94. Progress and plans against major objectives are shown graphically, as well as numerically, with commentary. Performance targets and measures (reproduced at Appendix 3.2) are set out and reported.

3.28. The objectives set out in the 1993/94 Corporate Plan are:

- (a) to continue the adaptation of the canal network from freight use (for which it was designed) to the leisure use now demanded of it, thus generating funds to finance its use and conservation;
- (b) to continue to improve the environmental value of the waterway network for the benefit of the nation by raising the overall levels of maintenance of the waterway, towpath and facilities to those specified in its Customer Charter;¹
- (c) to eliminate the backlog of urgent arrears of major engineering works by the end of 1996/97; and
- (d) to reduce the dependence upon Government grant through improved efficiencies in operation and an increase in income from the main beneficiaries of the waterway network.

3.29. The plan correspondingly gives attention to matters directly and indirectly affecting the attainment of these objectives. The business review discusses sources of income, including scope for savings in operating expenditure. All substantial sources of income are forecast to increase slightly in real terms over a four-year period, except for property income. A fall is allowed for in income from such sources as local authorities. A small overall decline in income is expected in real terms (about 1 per cent), although income at out-turn prices is expected to rise by 20 per cent. Operating expenditure is expected to decline by 15 per cent in real terms (an increase of 3 per cent at out-turn prices). Total expenditure, however, falls by rather less, about 9 per cent in real terms, and is estimated to increase by 11 per cent at out-turn prices. The increase in total expenditure arises partly from the new statutory obligations placed on BWB by the EPA and an EC Directive which requires bridge strengthening.

3.30. In consequence of these planned movements in income and expenditure, BWB's total funding requirement is expected to fall by 14 per cent in real terms but to increase by 5 per cent at out-turn prices. Navigation, environment and facilities standards are all planned to increase, as are those of water quality. The maintenance backlog is expected to be eliminated by 1997, after which, BWB told us, there will be a reduction in maintenance spend.

Review

3.31. The 1989 appraisal of the IBS and the 1993 reappraisal begged two important questions about the comparison of strategic options: first, whether BWB's methodology, essentially an NPV analysis, was appropriate and second, whether further options should have been considered. These questions interact. The criterion of BWB's NPV is related to the Treasury's test discount rate for evaluating major projects. It has its limitations, however. Whilst NPV is useful for comparing different options as opposed to assessing a specific project, it does emphasise the short term. Thus, early property realizations and reinvestment will appear more beneficial than, say, developments which generate substantial income over longer and/or later periods. In BWB's case, it also ignores aspects to which a monetary value cannot readily be attached (eg heritage, amenity), thus giving undue weight to property activity and closely related matters. This weight was further emphasized by the choice of property-related options as the only comparators for the IBS. The choice of methodology also greatly affects the generation of options. If the criterion chosen had been, say, some presumed value of BWB to the nation, with values placed on drainage, amenity and environment, then a different range of options could almost certainly have been generated.

3.32. In our view, the BWB exercise suffered from two weaknesses; first, a failure to compare the IBS with other than property disposal options, and second, a failure to take account of other factors less easily put into monetary terms, such as amenity benefits deriving from the existence of canals. The exercise lacked an analysis which reflected all BWB's obligations. We consider that financial performance, perceived amenity value, heritage, environment and other aspects of public good should all carry weight in BWB's strategy selection. Monetary value can be attached to some of these, at least in part, but they are not all measurable commercially.

¹ See glossary.

3.33. The IBS, as articulated by BWB, recognizes this point. It calls for a holistic view in planning, management and strategic choice at all levels in BWB. We see the desirability of this approach but the IBS does not always succeed in balancing competing priorities. It is more a statement of management philosophy than a strategy (a point conceded by BWB in the last days of the inquiry), and its operational application is difficult to understand. It does not make explicit what BWB is aiming to achieve or by what means.

3.34. The main strategic question for BWB is what is the right balance among its various aims, such as ensuring safety, providing leisure opportunities, conserving heritage and so on-aims which may involve conflicts of interest. We believe a new set of criteria should be developed against which BWB's planning and accountability should be exercised. These criteria should be simply expressed: for example, the provision of leisure facilities, the conservation of heritage. Another possible criterion is securing money from other funding bodies to contribute to waterway development. (In 1992/93, about £6 million of funds were made available by such bodies-see paragraph 4.52.) Each criterion would correspond to a substrategy-one for leisure, one for heritage, one for fund raising and so on. The Corporate Plan should set out the criteria and how resources are to be allocated to satisfy these criteria. The management approach would remain holistic, but would be conditioned by the need to meet several criteria.

3.35. Explicit recognition of multiple criteria helps to avoid undue emphasis on any single criterion. BWB's use of the NPV criterion alone in its strategy appraisal exercises has, we believe, led to an undue emphasis on short-term property opportunities and consequently to the danger of the property tail wagging the waterways dog.

3.36. BWB's assessments of the achievements and benefits of the IBS attributed too much to the IBS, since the many improvements that have been made in BWB might have followed if any of a whole range of strategies had been adopted. An attempt should have been made to isolate the improvements attributable to the IBS, difficult as this may have been to do.

3.37. The IBS gave BWB greater commercial freedom than is normal within the rules for nationalized industries and correspondingly called for different arrangements between BWB and the DoE from those customary between a nationalized industry and its sponsoring Department. This has meant that special arrangements have had to be developed for the DoE to control BWB's use of funds. Initially, these were set out in a Financial Memorandum in March 1990. However, there have been subsequent changes and some points of uncertainty have been revealed. These are discussed in paragraphs 4.13, 4.30, 4.33 and 4.34. It may be timely to review these arrangements.

3.38. The planning system works as intended. Plans are drawn up, assessed and aggregated in a purposeful way, and the process generates plans which meet desirable criteria and which are actionable and attainable. Priority judgments are made at all levels, and include a canvassing of peer group opinion as well as review by superiors. The process appears to generate high commitment by each manager at each level to his or her plan. The Waterway Managers, in particular, encouraged as they are to respond to local concerns and to take responsibility for all aspects of their individual waterways, appear to feel the system is fair to them and supportive of their management tasks, which in turn contributes positively to BWB's overall performance.

3.39. Waterway Managers make use of a well-developed system for ranking the major projects, which they will have helped to identify. Other projects can be ranked by their commercial return. Some projects which do not show a commercial return to BWB as such may be given high priority because some other party is prepared to help in funding them. Other potential projects will benefit several aspects simultaneously, by, for example, showing a positive financial return, improving environment and amenity or meeting a local objective. In choosing which among such projects to propose, the Waterway Manager exercises his or her judgment. In theory, all choices could be taken on a purely commercial basis if agreed values could be placed on amenity and other factors which are not easily quantified, and especially if the Grant was made dependent on these values. Hypothetical values for such benefits may help to identify their relative importance but cannot be robust enough for detailed computation.

3.40. The manifest strengths of BWB's planning system derive from its strong 'bottom-up' component, which is appropriate for an organization aiming to be responsive to local need and to generate commitment among its local staff. (The beneficial effects that the management reorganization, of which the planning system is an implicit part, has had on BWB are discussed at greater length in Chapter 5.) Bottom-up planning tends, however, to generate fewer alternatives for consideration at corporate level than may be desirable. This is true in some measure of BWB's planning system. There is a tendency to choose between alternatives at low levels in the system. Options that are detrimental to one waterway but which might be justified for the greater good are unlikely to be generated at waterway level and to find their way to corporate level. It is difficult to imagine the present system leading to a Corporate Plan that sharply concentrates resources on some waterways and sites at the expense of remaindering some sections of other waterways.

Conclusions and recommendations

3.41. Whilst we accept the desirability of BWB's taking a holistic view in its decision-making, we do not believe the IBS is a business strategy in the usual sense but rather a statement of management philosophy. It does not, for example, include a statement of priorities and how they are to be balanced.

3.42. Under the IBS, amenity, leisure, environment and heritage ostensibly enjoy equal consideration with commercial and cruising use and maintenance of the track. However, the IBS was originally appraised, and has since been reappraised, using a methodology which is essentially an NPV analysis. Moreover, it has been compared exclusively with options for property disposal. In our view, this has led to an undue emphasis on the property aspects of the IBS. We conclude that a much wider range of criteria should be used for strategy selection, planning and accountability.

3.43. The IBS was agreed between the DoE and BWB in part to give greater commercial freedom to BWB within the rules for nationalized industries. It therefore called for unusual operating rules between the DoE and BWB.

3.44. The way in which alternative waterway plans are dealt with means that there are few alternatives at corporate level. This may limit the development of BWB's strategy. We therefore believe that waterways should be asked to produce alternative plans for consideration in planning at corporate level. The word 'plan' is used here not only in the sense of an action programme for the year ahead. Rather it is intended to embrace also some longer-term possibilities, such as corridor development, which might be begun in the short term; the reopening of virtually derelict stretches of waterway; and the greater harnessing of local authority funds. BWB has already enjoyed commendable success in such directions, and we believe should seek systematically to build on that success.

3.45. The effects and the resource input of each plan would be noted. It would then be possible, with simple modelling, to draw out the levels of resource input necessary to achieve a mix of outputs, in terms of level of attainment of waterway standards, level of amenity provided and so on, for BWB as a whole. In this way, the costs of attaining different balances of outputs would be clarified, and assessing the trade-off between different criteria facilitated.

3.46. We recommend that BWB should reconsider the criteria by which it chooses its strategies. Whilst monetary value should be used where possible to balance the attainment of the various criteria, there should be recognition that not all BWB's responsibilities can be judged by a commercial return.

3.47. We also recommend that, by the time its 1995/96 Corporate Plan is published, BWB should have developed and agreed with the DoE a more explicit strategy. To this end, we recommend that the 1994/95 Corporate Plan should set out the reconsidered criteria by which BWB should be judged, and its performance against each; and that the 1995/96 Corporate Plan should indicate the relative importance given to each.

3.48. We recommend that the present arrangements, arising out of the IBS, between the DoE and BWB should be re-examined by the DoE and BWB and reconfirmed by March 1994.

3.49. We recommend a pilot study in 1993/94 under which one waterway in each region should, in conjunction with its regional management, be asked to produce imaginative alternative plans for consideration at corporate level, with a view to such arrangements being a more widespread part of the 1995/96 planning process at corporate level.