

BOAT LICENCE FEES, APRIL 2008 – MARCH 2011 CONCLUSIONS AFTER PUBLIC CONSULTATION

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1. BACKGROUND

1.1. About the consultation

The need for this consultation on boat licensing arose from the expiry of our last commitment on fee levels made in 2002.

Since 2003 the annual uplift in licence fees was determined by reference to an index to reflect BW's operating costs. This led to an average annual price increase between 2004 and 2007 of 3.1% p.a.

Between 2001 and 2003 prices rose by an average of 2.83% p.a. (RPI only) and between 1997 and 2000 by 9.38% (RPI + 7-8 %)

The key proposals on which we consulted were:

- (a) To increase the private pleasure boat licence by an average of 9.1% plus cost-reflective inflation over the next three years.
- (b) To peg hire boat etc licences to inflation
- (c) To reduce the prompt payment discount
- (d) To continue to use the composite cost index to calculate cost-reflected inflation

We launched the consultation formally shortly before our AGM. Recognising the strength of feeling about the issue at the AGM, we extended the consultation channels to include a series of five public meetings around the country hosted by Chief Executive, Robin Evans and Marketing & Customer Service Director, Simon Salem.

The consultation document is still available on our website at

http://www.britishwaterways.co.uk/images/bw_licence_fee_consultation_oct_07.pdf

1.2. How we consulted and reached our conclusions

At the April 2007 meeting of the national waterway users group, we explained BW's financial prospects and informed group representatives that there would be a need for licence fee increases. A substantial discussion aired boaters' concerns and informed the preparation of the consultation document later in the year. We also explained our financial position at our Annual Meeting in September 2007.

On publication of the document, we reached individual boat owners and stakeholders by the following means:

- News item in our monthly e-newsletter, 'Boaters Updates' mailed to c.10,000 subscribers (this service is advertised on waterscape.com and is free).
- Waterways press briefings
- An insert in licence renewal notices
- Mailing the consultation document to 16 stakeholder groups (see Appendix 1)
- Publishing the consultation document on the BW website
- Publicising a series of 5 regional public meetings with our Chief Executive and Marketing & Customer Service Director during December / early January

We considered carefully whether to mail a copy to all 31,000 licence holders but concluded that the cost of this would be disproportionately high.

All written responses were logged as received and coded to show responses to the individual proposals. We also analysed them by 'frequently expressed opinions'. A summary of these is at Appendix 2

Each local public meeting was attended by a senior manager who prepared written notes summarising the themes emerging at each session. We tabled a chart giving further

details of BW's financial position in response to feedback within the early written responses. This is included at Appendix 3 The directors and senior managers involved in the consultation had a series of informal meetings during the consultation period to update each other on the emergent themes.

Immediately after the closing date, an additional in-depth analysis was made of the written submissions from user groups.

We reached our conclusions and prepared recommendations for consideration by the Board which approved them at its meeting on 24th January.

2. SUMMARY OF OUR CONCLUSIONS

2.1. The response to the consultation was passionate and well argued, particularly by the representative organisations.

2.2. Since the launch of the consultation, the economic outlook for at least the next two years has worsened sharply and we are concerned that this will impact on growth in the inland boating market.

2.3. We must set the fee level for 2008/9 in early February in order to issue renewal invoices for licences starting on 1st April 2008.

2.4. Our decisions are as follows:

(a) Boat licence fees in 2008/9

- Private boat licences will increase by 5% p.a. in real terms instead of the 9% proposed in the consultation document. This means an increase including 3.3% cost inflation of 8.3%.
- Leisure business licences will increase in line with cost inflation (3.3%)
- The business licence discount for very small traders and cargo carriers is reduced from 56% to 55% so that the rate does not drop below that of a private licence (this means a price increase of 5.65%)
- Workboat and trade plate licences will increase by 8.3%
- There will be no change to prompt payment discount

(b) Licence enforcement

- To make the necessary technical preparations and undertake swift consultation with boating user groups on the introduction as soon as possible of a fixed cost-related penalty charge for late payment for boat licences and mooring permits. (See 4.5 (6) (iii))
- To develop and implement the other special measures for reducing licence evasion outlined in section 4.5 (6) (v)

(c) Licence fee structure potentially influencing fees from 2009

- To develop new terms of reference for an extension to the consultation to be conducted through the BW Advisory Forum. This will address the strategic and practical proposals submitted by organisations and individuals during the course of the consultation discussed in section 4. The work will be conducted jointly with our small central boating development team. Professional consultancy may be employed as required subject to BW's budgetary constraints.

- Recommendations from this work programme to be considered by the Board no later than November 2008 in time to confirm the fee levels and structure for April 09 onwards.

(d) Future communications with boaters

We aim to improve our engagement with boaters on subjects that are of concern to them and are currently developing proposals for this which we will discuss with boating user groups. See 4.3 below.

(e) Cost inflation

We will continue to calculate cost inflation using the same index that we have been using since 2004.

3. RESPONSE TO THE CONSULTATION

3.1. Volume of response

Written responses

We received a total of 21 written responses from stakeholder groups and a further 88 from individuals.

Public meetings

Location	Date	No. of sessions	Total participants
Watford	4/12/07	3	31
Leeds	13/12/07	3	93
Gloucester	14/12/07	1	12
Hatton	16/12/07	3	52
Northwich*	10/1/08	3	58
<i>Totals</i>		<i>15</i>	<i>246</i>

* This session was added in response to demand just after the formal closing date of the consultation.

3.2. Themes that emerged

- (1) Licence increases at the rate proposed would combine with the other upward pressures on boating costs (particularly loss of red diesel and rising mooring prices) to price 'average' boaters off the waterways. Many boaters are on fixed incomes (often pensions) and thus likely to be unable to afford increases. This conclusion was strengthened by fears about the state of the British economy in the light of the current upheaval in world financial markets. Several submissions asked us to explain why we felt pensioners' concessions were not feasible.
- (2) There was considerable sympathy with BW's funding difficulties and criticism of government for not maintaining grant. Above all however, the message from both user groups and individual boaters was that they felt that BW was unfairly targeting boaters for additional cash. There were many suggestions as to how BW should raise added income from other categories of user. In particular, BW should do a great deal more to foster contributions to running costs from local authorities whose populations derive most benefit from well maintained waterways. In short, BW had not made a sufficiently convincing case for needing such large boat licence fee increases.
- (3) It was felt that there needs to be a more reasoned basis for setting the overall licence fee take, probably based on analysis of BW's costs of providing for

boaters, or of the distribution of benefits of waterways across different stakeholder groups. There were frequent references to BW's near-monopoly position requiring a more transparent approach to licence fee setting.

- (4) It was felt that BW is not effectively harnessing the potential value that its core supporters can offer, both in the areas of volunteering to help reduce BW's costs and in lobbying.
- (5) If boat licence fees were to be increased significantly above inflation, there should be a more transparent link between these increases and BW's achievement of specific enhanced service standards.
- (6) It was felt that BW should demonstrate greater effectiveness in tackling licence evasion before making above inflation price increases. Many people linked this to the proposal to reduce the prompt payment discount, and there was near unanimity amongst respondents that to reduce the discount would have negative consequences for BW. One stakeholder group made a well argued case for strengthening the payment incentive by introducing an additional late payment penalty.
- (7) Many individual boaters and their representative groups felt that inflation-only increases for business licences to be unfair and not justified.
- (8) In addition to these general themes, there were two recurrent suggestions for specific changes to the licensing system to re-distribute the burden between different types of boater:
 - (1) The increasing number of boaters without a home mooring, who consequently contribute significantly less to operating costs than those who do pay for a mooring. Many respondents felt that a 'continuous cruiser' licence should be charged at a higher rate, or that some other way should be found to collect fees from boaters who 'continuously moor'. (The responses to the consultation included a petition on this point organised by Wyvern Shipping and signed by 9 members of the boating trade and 142 individual boaters.)
 - (2) That wide boats should be subject to a higher licence and/or mooring fee.

4. DISCUSSION OF CONSULTATION FEEDBACK

- 4.1.** We were impressed by the engagement and strength of feeling the consultation generated. It was predictable that proposals for significant price rises would meet a hostile reception, but the breadth and depth of submissions prompted us to reconsider our proposals very carefully.
- 4.2.** Many points were very well made, while others demonstrated a less detailed understanding of BW's financial strategy than we anticipated. We have wrongly assumed that by publishing information in our annual report and elsewhere, the typical boater or user group would be familiar with the detail. So, before addressing the detailed themes reported above, we will record that we need to communicate better with individual boaters.
- 4.3.** The majority of participants in the regional meetings were not representatives of user groups, and were certainly not familiar with the topics that we discuss regularly with user group representatives. We must improve the linkage between national consultations and our local waterway user group forums. The licence consultation should have been discussed in more depth at these meetings. We are also developing plans for further 'face to face' gatherings with boaters during the summer at popular locations hosted by at least one BW executive director and relevant senior managers.

4.4. At our AGM in October 2007, our Chief Executive summarised a range of subjects that were under wide discussion by listing six challenges facing BW, namely: *“How should BW balance the following demands...*

- (1) the complex maintenance requirements of historic waterways;
- (2) generating the income required for a prosperous network;
- (3) expanding a system that is sustainable over the long term;
- (4) encouraging regeneration whilst maintaining appeal;
- (5) growing public support and use;
- (6) building on the enthusiasm, dedication and skills of BW's people.

Many of the responses summarised in the eight themes above address one or more of these six challenges and serve to initiate the debate that Robin Evans invited.

We propose to extend the debate over the coming months including inviting BW's Advisory Forum to examine the written submissions to the consultation in closer detail than has been possible so far. We will ask them to suggest, from the proposals contained within the feedback, priorities for the further work required to develop and implement future changes. Where necessary, we will commission expert advice, taking advice from BWAFF on suitable briefs for this.

4.5. In the meantime, we will record as follows our immediate response to the themes identified in 3.2 above.

(1) Impact of price increases on demand

The macroeconomic climate has changed significantly since early October 2007 when we published the consultation document. At the time, 'sub prime lending' was barely in the common lexicon and there was little anticipation of a serious slowing of economic growth. Events since October put a different complexion on our expectations about growth in the boating market and sensitivity to price increases. We have therefore **decided to reduce the price increase for 2008 to 5% p.a.** in real terms. **The increase from April 2008 will therefore be 8.3%.**

We do understand the difficulties faced by boaters on fixed incomes, particularly in the light of other increases in boating costs. Several respondents challenged our assertion that it would not be feasible to offer a concessionary rate for pensioners. The reason is: because a boat is a chattel without legal title, anyone can register as its keeper for licensing purposes. This means that without introducing expensive controls, we would have no way of avoiding a trend towards boaters asking a parent or grandparent to licence their boat for them at the concessionary rate. As an alternative, AWCC has proposed a loyalty bonus arrangement¹. This warrants discussion.

In similar vein, NABO suggested that BW could offer advantages for up-front payment for a fixed price licence of longer durations, e.g. 3 years. This would help BW to finance earlier repairs to category D & E assets. At first sight, this appears to be an attractive financial option for BW, but it would not help the underlying economics: BW is not constrained by cash flow, but by net income. However, it is something we will examine to see if there would be sufficient administrative cost saving to allow a discount that would be attractive to a reasonable number of boaters. Initial 'back of the

¹ *“... a loyalty bonus in the form of a substantial licence discount for boaters who can show that they have personally held a BW licence continuously for, say, twenty years. The emphasis should be placed on the individual to apply. Confirmation could be done easily from BW records. ”*

envelope' estimate is that the maximum discount for full payment in advance for a three year licence might be no more than 5-7% of an average expected annual fee for the three years.

(2) Other sources of funding/collecting fees from other users.

Local authorities were widely singled out by respondents as being prime candidates for greater contribution to the running costs of waterways. They benefit directly from enhanced property values through the council tax and business rating systems, and their residents benefit from healthy and attractive waterside space for a wide range of activities and pastimes. We agree with this principle and have many – though insufficient – examples of partnerships with local authorities involving financial contribution. BW has no rights to Council tax precepts, but where local electorates wish to see improvements in their canalside, local democracy can bring this about. BW would like to see greater involvement of waterway enthusiasts in this process. In the meantime, we are pleased to be engaging in the inter-departmental committee established by DEFRA following the 2007 select committee report on British Waterways. As owners of the canals, we are also active in seeking Section 106 agreements to cover the costs of waterway maintenance and improvements associated with adjacent development schemes. We are building a relationship with the Local Government Association and plan to meet at Director-level with the largest Councils to discuss funding over the coming year.

A large number of submissions also made reference to the opportunity BW appeared to be missing of collecting fees from other waterway users, notably anglers. We do lease lengths of fishery to angling clubs whose members therefore contribute through their club fees. However, canal angling operates at the lower end of a highly competitive market. We are finding that demand for angling rights is falling as anglers increasingly prefer the large, easy-to-catch fish and superior facilities offered by intensively stocked angling pools. Consequently, angling income is diminishing and on some stretches of canal, the angling rights remain un-let. It is not within BW's powers to 'claim' a share of rod licence income from the Environment Agency.

BW's strategy is to increase commercial income which now contributes significantly to the cost of waterways maintenance. Our property estate remains the cornerstone of the strategy. A number of regeneration schemes, which alongside well maintained waterways, will attract further visitors and generate income either directly through ventures such as the Waterside Pub Partnership or indirectly through increases in rental income resulting from the enhanced environment. Other examples include BW's income from its utility business which continues to grow to record levels, ensuring that those who need BW's water or who want to use BW property for way leaves pay a fair price for doing so.

(3) Establishing a more transparent approach to licence fee setting.

The level of 'take' from boaters in the form of licence fee income is largely historically derived. BW's statutory powers give it a broad discretion over the charges it makes for its services but there were strong views expressed that there should be a more clearly reasoned formula for determining how much boaters as a whole should contribute to BW's costs. Instead of the present 'what the market will bear' approach, the feeling was that charges to boaters should relate to transparent cost-based criteria, or a comparative analysis of the total benefits enjoyed by boaters compared with those derived by towpath users.

This is a significant issue that was beyond the scope of the consultation, and the practicalities of measuring appropriate costs or benefits would be challenging, but we would be happy for BWAF to consider in more depth and advise on whether investment in the necessary expert analysis would be worthwhile.

(4) Harnessing the value of core supporters.

BW is fortunate in having very dedicated stakeholders prepared to invest their time and energy in lobbying for appropriate public funding for the waterways. Many have also indicated a willingness to volunteer their time to assist BW in operating the waterways. We recognise that we do not yet have an appropriate systems or structures in place to fully exploit this valuable resource...We are working within and outside the organisation to improve our performance in this area. Again, BWAF may wish to develop advice.

(5) Linking licence fees to customer service standards.

This was a popular theme, particularly within user group responses. It is a reasonable request and we shall consider further. However our proposed fee increase are needed to maintain existing standards and it would be very difficult to guarantee significant improvements in customer service at our current levels of funding

(6) Licence evasion

- (i) We absolutely agree that the current level of licence evasion is unsatisfactory. Licence enforcement is an increasingly uphill struggle. Our investment in enforcement staff has not matched the increase in boat numbers of 17% since 2002. At the same time, growth in the residential boating sector has pushed up the average cost of dealing with evaders. In November 2006 we issued a new set of enforcement principles and procedures to be adopted by all waterways. During 2007 we appointed our first national enforcement manager and invested in new technology. We now have practical new tools in the form of handheld computer terminals linked to SAP for use by staff on the canal bank.
- (ii) Partly because of the steep learning curve associated with these changes, the results of the national boat count in November 2007 showed that the licence evasion rate had most disappointingly slipped back by 1.3%. Only one waterway unit achieved an overall improvement on its 2006 performance. The 'strict' evasion rate (i.e. allowing no grace for late payment) at 20 November stood at 10.4%. The rate reduces to 8.7% if those that pay within 28 days are excluded.
- (iii) We remain confident that the new systems and procedures are sound, and that with further effort, we will see a sustained improvement in enforcement performance over the coming months. We will shortly start issuing second 'red' reminders two weeks before licence expiry.

To further strengthen the incentive to renew on time, we propose introducing a supplementary fixed charge payable when the boat remains on our waterway without a licence for more than one month. We are currently assessing the appropriate level for this but expect it to be in the region of £130. It will reflect the additional costs that we incur in collecting licence fees from late payers. It is not a 'fine' or 'penalty'.

- (iv) We believe that these national changes coupled with full implementation of the new systems launched during 2007 will be sufficient in most waterway units to recover the position.
- (v) South East and West Midlands waterways however require special measures. Together these two teams are responsible a third of all the boats on our waterways in England & Wales, and for three in every five unidentified boats sighted during the national count. We are therefore proposing a significant investment in additional patrol staff and budget for legal and contractor costs during 2008 and 2009. Clear targets are being set and the national enforcement manager will provide support and monitor performance very closely to ensure

that the additional resource bears fruit. At the end of the two year period, we plan to reduce enforcement costs back to near current levels (approx 7% of licence income).

(7) Fees for business licences.

Most user groups representing individual boaters felt that it was unfair for business licences to be pegged to cost inflation while private owners faced a much larger increase. While understanding this reaction, we have not changed our decision for the following reasons:

- (i) While private boat ownership has been growing strongly, holiday hire boat numbers (comprising the majority of leisure business licences) remain static. Market conditions require prudence in pricing.
- (ii) Boats are the lifeblood of the waterways and hire boating is an important generator of future custom for the boating trade and new private licence holders. Long term it is in all boaters interests to see growth (subject to obvious capacity constraints) as this will help to spread the cost burden.
- (iii) Business licences are already approximately 2.3 times more expensive than private ones. A 3.3% increase in their price therefore yields incremental income in absolute terms almost as much per licence as an 8.3% increase in the price of a private licence.
- (iv) We believe that the current structure of business licences is far from perfect (as acknowledged following the 2006 consultation on fee structures), and look forward to the further discussions already arranged with the boating trade on alternative, fairer and more efficient methods of collecting contributions from those who earn a living from offering boat trips, boat hire etc.

(8) Re-distributing the burden between different type of boater

We acknowledge imperfections within the licence fee structure, and despite efforts in 2003 and 2006, we don't yet have a good solution. Major changes to such an important revenue-earning operation require significant resources simply to plan, and even more to implement. Excellent arguments for radical overhaul are frequently published in the waterways press, and were included amongst the consultation submissions. We need to consider these, but must also question whether, while funds for maintaining the waterways are so scarce, this should be a priority for expenditure. Nevertheless, we would welcome the views of BW's Advisory Forum on this subject, and in particular, their view on whether the two specific proposals mentioned in 3.2 (8) that emerged from the consultation should be developed further.

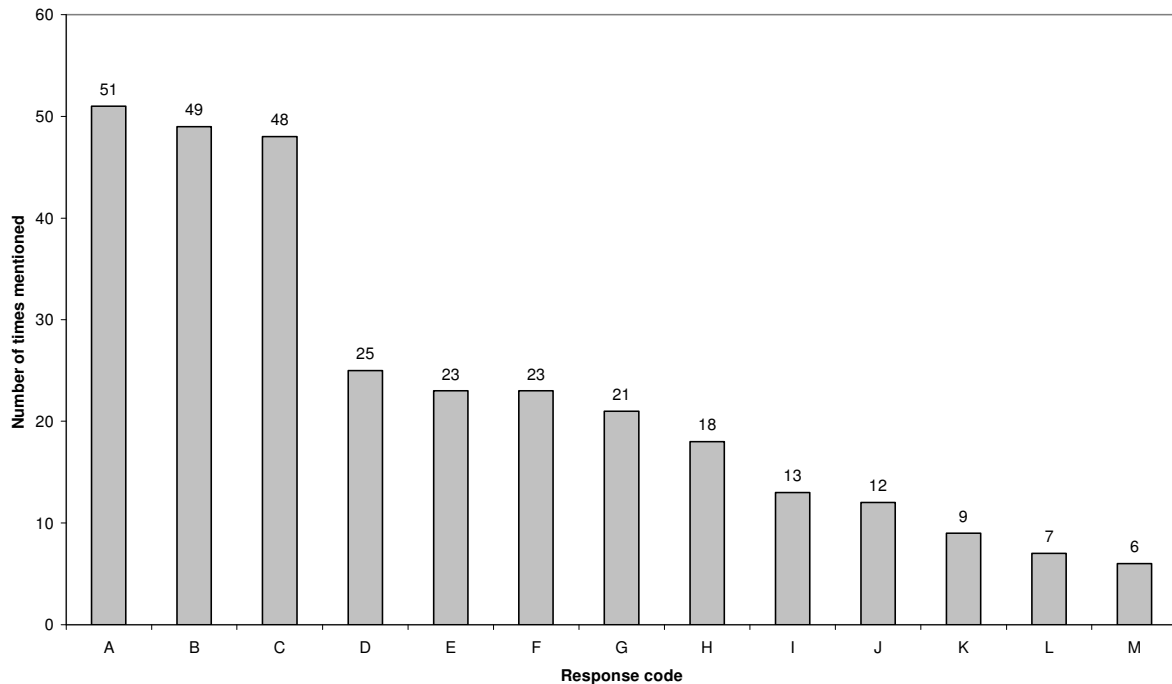
APPENDIX 1

STAKEHOLDER GROUPS TO WHOM WE SENT THE CONSULTATION PAPER

Association of Pleasure Craft Operators	National Association of Boat Owners
Association of Waterways Cruising Clubs	Residential Boat Owners Association
British Marine Federation	Royal Yachting Association
Electric Boat Association	Steam Boat Association
Historic Narrowboat Owners Club	The Barge Association (DBA)
Horseboating Society	The Boating Association (TBA)
Inland Waterways Association	Yacht Harbour Association
Inland Waterways Advisory Council	Wooden Canal Boat Society

APPENDIX 2

QUANTITATIVE SUMMARY OF MAIN THEMES WITHIN THE 109 WRITTEN CONSULTATION RESPONSES



K

Key to response codes

- A "Boaters are being priced off the waterways"
- B "Other waterway users should contribute more"
- C "Why should private boaters shoulder the burden?"
- D "BW should do more to chase licence evaders/late payers"
- E "Loss of PPD will increase bad debt"
- F "Greater contribution should come from other public bodies and waterside businesses"
- G "Why can't BW offer pensioner concession?"
- H "Scope of consultation should have included level of fees"
- I "Current waterway maintenance is not up to scratch"
- J "There should be consultation at the review stage"
- K "Make better use of / change policy on volunteers"
- L "Continuous cruisers get a better deal / are abusing licence system"
- M "Levy late payment charge / fine as well as / instead of PPD"

APPENDIX 3 HANDOUT TABLED AT LOCAL PUBLIC DISCUSSION MEETINGS, Dec 2007 & Jan 2008



BOAT LICENCE FEE CONSULTATION

Customer discussion sessions

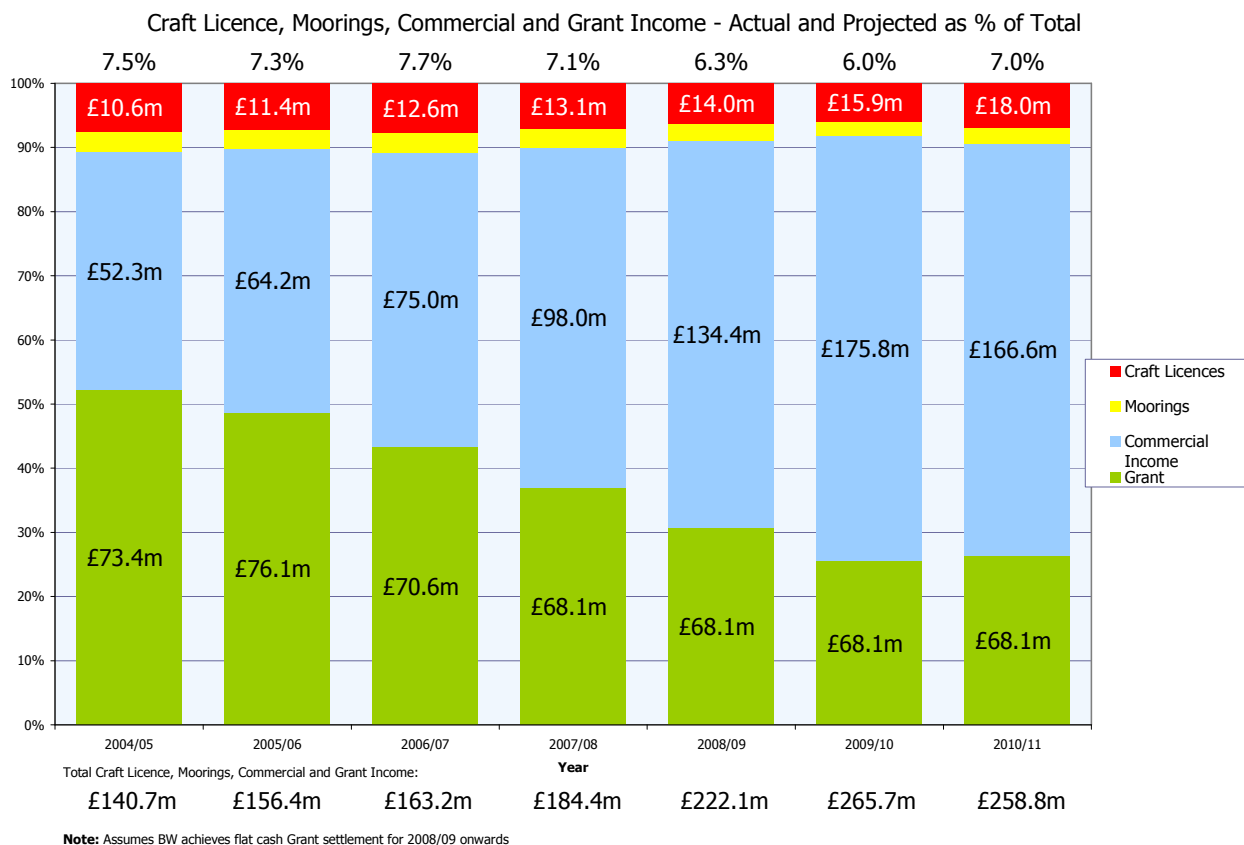
Thank you for attending this meeting to consider future licence fees for BW boating customers. It is an important discussion for us all. We first raised the need for higher licence fees with national user groups in April 2007 and we are now at the more detailed and formal stage of consultation.

Written responses to the consultation are expected by 7 January 2008 but our discussions at this meeting and at the Waterway User & Special Interest Group meeting in October 2007, are equally important to us. We will be considering all the points put to us and reaching a final decision by the end of January 2008.

BW's chief executive, Robin Evans & I will make sure that all the points made today are noted and for this purpose, we propose to record the proceedings. I hope this is satisfactory to you.

We have spare copies of both the consultation document and the 2007 annual report available today. I also thought it would be helpful for us to have this handout with a couple of simple graphs setting out the financial projections.

Simon Salem
Marketing & customer service director



Boating Related Expenditure - Actual and Projected (£m)

