

# THE FEE STRUCTURE FOR BOAT LICENCES IN ENGLAND AND WALES: A CONSULTATION

**JUNE 2005**

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# 1. CONSULTATION PROPOSALS: INTRODUCTION AND SUMMARY

- 1.1. In December 2004, the Waterway Ombudsman concluded that British Waterways' boat licence terms and conditions were unfair in respect of the differential charges made for shared ownership boats. Under the 2004/5 terms, boats that were managed by professional boat share companies were subject to the business licence whilst those that were privately managed were subject to the lower priced private licence. In his detailed report, the Ombudsman concluded that BW was not sufficiently clear on the criteria it applied in setting differential rates.
- 1.2. BW's response was to refund the difference between private and business licence fees for all commercially-managed shared boats. Subsequently BW announced that it would review the licence structure in the light of the Ombudsman's findings. This paper is the result of this review. BW commissioned Oxera Consulting, specialists in pricing economics and competition issues to lead the review. The framework and proposals presented here largely result from Oxera Consulting's work.
- 1.3. The outcome of this review is a clearer statement of the principles underlying BW's boat licence pricing—namely, cost impact and efficient fixed-cost recovery. Confirmation of these principles has led BW to propose the following changes:
  - (a) the renaming of the two main licence fee categories from 'business' and 'private pleasure boat' to 'higher rate' and 'base rate' respectively;
  - (b) the proposed reclassification of shared ownership and multi user boats, and possible reclassification of continuously cruising boats, into the higher rate licence category;
  - (c) replacement of the threshold for small business turnover discount with a VAT registration criterion.
- 1.4. This paper includes an analysis and rationale for each element of variation within BW's pricing structure. In future, if facts change that call into question the validity of any of the reasons listed in section 3, we will use this same framework for adjusting discount rates and/or relative base fees. Change proposals will be considered by the British Waterways Advisory Forum (BWAF) rather than by full public consultation.
- 1.5. This consultation invites users' and interested parties' comments on the underlying principles and the proposed changes that affect licence fee categories.

Section 2 of the document sets out the underlying principles for differentiating licence fees for different types of boat/boat usage. The discussion is presented within the context of the current licence fee framework.

Section 3 presents more detail and discusses the reasoning and evidence that demonstrates the need for elements of the current pricing structure to be changed.

Section 4 outlines the proposed changes.

## 2. GENERAL APPROACH TO BOAT LICENCE PRICING

- 2.1. To comprehend BW's boat licence pricing structure, it is first necessary to understand the organisation's cost structure. Operating the waterway network for navigation is a high fixed-cost business. BW must maintain the network to specified safety requirements, and needs to recover some proportion of those fixed costs from boat users.
- 2.2. Boat users also impose significant variable costs on BW (i.e. costs that vary with the level of usage)—for example, operating locks creates wear and tear and uses water. Cruising generates wash that slowly damages and erodes banks, both of which result in BW incurring additional costs in the long run. BW also provides services such as water, sewage disposal, refuse collection, etc. which are used more by some boating customers than others.
- 2.3. In light of this cost structure, BW has two main principles that underlie its charging structure.
- (a) *Cost impact*—usage of the waterway network results in BW incurring additional costs. BW wishes to recover variable costs from different groups of boat users broadly in line with the extent to which they are responsible for causing them to be incurred. Consequently, groups that use the waterway more intensively, and hence cause more costs to be incurred, should be charged more than those that utilise the waterway less intensively.
  - (b) *Efficient recovery of fixed costs*—BW needs to recover some of its fixed costs. These are costs not directly caused by particular groups of users, such as general track repairs, as efficiently as possible. Economic theory demonstrates that the minimum loss of usage is caused by charging different user groups according to their willingness and ability to pay. Groups with a higher ability/willingness to pay are charged more, while those with a lower ability/willingness to pay are charged less. This type of pricing is a widespread accepted practice: travellers pay a varying price for the same type of seat on an aeroplane; discounts are offered to particular types of purchaser (eg, pensioner and student discounts); and particular buyers, such as university libraries, pay higher fees than others for items such as academic journals. This particular approach to price setting, described as Ramsey pricing, has a sound basis in economic theory, and its use is accepted by utility regulators and competition authorities in the UK and overseas.
- 2.4. BW recognises that it is not practical to track or monitor individual use, nor undertake individual willingness/ability to pay estimates for each user. Therefore, BW intends to continue to group individuals into different user classes for which it either has direct evidence, evidence from proxy variables, or reasoned argument that justifies a particular view on the intensity of use or willingness to pay of that group. Again, this approach of grouping consumers according to likely behaviour and willingness/ability to pay is common practice in the private sector. For example, offering student discounts and higher rates of air passenger duty for business class passengers.
- 2.5. Where appropriate, BW also takes into account wider social, environmental and heritage objectives in its charging structure. For example, BW offers discounts to charitable organisations and for particular groups of historic boats. This consultation does not affect these groups, nor those discounts already mentioned in this document.

## 3. DETAILED REASONING FOR PRICING STRUCTURE

Table 3.1 outlines in more detail the reasoning for each of the key areas of BW's current pricing structure in June 2005. The general terms and conditions relating to this pricing structure were published on 1 April 2005.

**Table 3.1 Reasoning for current pricing structure**

	Description	Reasons for pricing in this way
<b>Main pricing brackets</b>		
1. <b>Longer boats cost more</b>	Under all licence types, longer boats pay more than shorter ones	Length is one of the main drivers of the price of new and used boats; generally the longer the boat, the more expensive it is. Consequently, the length of the boat is a reasonable proxy for the willingness and ability to pay of the boat owner. In the 2003 consultation on licence fees, length was widely accepted as a fair basis for price differentiation.
2. <b>Low price for leisure, higher price for business</b>	The business licence costs 2.47 times the private pleasure boat licence	Boats owned by businesses (e.g. hire boats) tend to use the waterway more intensively than singly owned private pleasure boats. This indicates that business boats will generally impose more costs on the BW network. They also gain commercial value from it, and hence have a higher willingness/ability to pay since they generally pass on the cost to their customers.  Evidence from the BW 2004 private boat owners' survey shows that the average private pleasure boat is used for cruising on 56 days per year <sup>1</sup> . By contrast, the average hire boat is in use for around 130–150 days per year.
3. <b>River-only usage</b>	The fee for using only BW's river navigations is 60% of the canal and river rate	BW incurs lower costs maintaining the river network than the canal network.. The 60% ratio is prescribed in the British Waterways Act 1983.
<b>Discounts</b>		
1. <b>Prompt payment</b>	A 10% discount applies if payment is made promptly.	BW introduced the prompt payment discount at a time when the take-up of licence renewals was particularly poor. The discount currently provides a cost-effective incentive for faster renewals, which in turn lowers BW's costs and aids revenue protection.

<sup>1</sup> See appendix

	Description	Reasons for pricing in this way
2. <b>Discount for cargo carrying boats</b>	Cargo-carrying craft qualify for a discount on the standard business licence that reduces the fee to the private rate	This discount is to encourage modal shift from road to waterways . There is precedent for this approach to freight-charging on the GB rail network for the same reason. In addition, BW understands that these businesses tend to operate on very low margins, and therefore have a low willingness and ability to pay. Finally, they provide a service to boat owners and maintain a historic tradition.
3. <b>Disconnected waterway</b>	A 25% discount applies to boats that are to be used solely on the small number of waterways that are disconnected from the main network	Users on disconnected waterways have more limited cruising opportunities than those on the main network. To the extent that this limitation makes these waterways less attractive, users' willingness to pay to use these waterways is considered to be lower.
4. <b>Powered portable craft</b>	A 50% discount applies if the boat is less than 5m long and has a small engine (no larger than 4bhp on canals, and 10bhp on rivers)	These craft tend to be boats that are lifted in and out of the water for infrequent day trips. The 2004 boat owners' survey revealed that that this type of boat averages around 20 cruising days per year. Therefore, these users impose fewer costs on BW's network, and also have a lower willingness/ability to pay <sup>2</sup> . There is a lower bhp limit for this discount on canals that reflects the greater potential damage to canal banks from boat wash.
5. <b>Historic boat</b>	A 10% discount is offered if the waterway service manager considers the boat to be in good condition, built before 1948 and have inland waterway heritage relevance	BW wishes to encourage vessels that have historic significance since they add colour and interest to the waterway. Precedent exists for similar heritage discounts, for example, the UK's road fund licence fee is not required for cars built before 1973. Further consultation with groups that specifically represent the interests of historic boat owners on the terms and conditions of this discount is pending.
6. <b>Unpowered butty</b>	A 50% discount is offered if the boat is over 50 feet long, is unpowered and never travels separately from a motor boat	Owners of 'traditional pairs' of narrow boats are typically enthusiasts motivated to help preserve this feature of the waterway heritage. BW wishes to support this, and recognises that for many such owners, the payment of two full licence fees may be a deterrent. We also recognise that sight of these traditional pairs enhances the enjoyment of many towpath visitors and other boaters.

<sup>2</sup> See appendix

	Description	Reasons for pricing in this way
<b>7. Electric motor discount</b>	A 25% discount is offered if the boat is powered by electric motor.	BW wishes to encourage environmentally and ecologically sound boating, and this discount was introduced to encourage innovation in this area. The debate as to whether electric motors have an environmental advantage over fossil-fuel power appears inconclusive. BW will retain the discount pending clearer scientific understanding on this subject.
<b>8. Scottish licence holder</b>	A 10% discount on a licence for waterways in England and Wales applies if the boat already has a licence for using Scottish waterways	Users that already hold a Scottish licence for their boat are likely to have a lower willingness to pay to also use the England and Wales network with the same boat. Their usage of the England and Wales network is also likely to be lower.
<b>9. Day hire</b>	A 50% discount on the business rate is offered if the boat has no overnight accommodation on board	A recent review carried out by Oxera suggested that the cost of hiring a boat for the day is in the region of £100, while the fee for overnight hire boats is in the region of £100–£200 per day depending on the number of berths. <sup>1</sup> In addition, overnight hires generally last for three or more days, while day-hire boats, by their nature, are hired for less than ten hours. Consequently day-hire boats tend to have many fewer cruising days per year than overnight hire boats. Willingness to pay therefore is substantially lower amongst day hire than longer period hire.
<b>10. Day hire without use of locks</b>	The previous discount may be increased to 75% if no locks are to be used, subject to the discretion of the waterway service manager	Locks, structure and landings constitute a significant proportion of the costs of maintaining navigation, as does the cost to BW of providing the water that is used when they are operated. It follows that boaters that do not use locks reduce the costs incurred by BW.  In addition, restricting the ability of hirers to cruise through locks reduces the value of the hire boat, and in turn reduces the willingness and ability to pay by the boat hire operator
<b>11. Unpowered craft for hire by the day or hour</b>	A 90% discount on the business rate applies if the boat is not powered and has no overnight accommodation	Rowing boats and similar small craft are typically rented out by the hour and are booked only during peak holiday periods in good weather. They cause little wash and rarely use locks. Willingness to pay and cost impact are therefore both very low
<b>12. Craft operated for charitable purposes</b>	A 60% discount on the business rate is offered if the boat is used for charitable purposes. This requires that any charges that are levied are only to cover the costs of the trips taken	Charities operating on the waterway network serve in the main the socially disadvantaged who generally have limited ability to pay. Consequently, charities have a relatively low willingness to pay. In addition, BW wishes to increase access to the waterways by these disadvantaged groups.
<b>13. Shop, store or workshop small turnover discount</b>	A 56% discount on the business rate applies if the business has turnover of less than £45,000	These craft make varying use of the waterway and add colour and interest to the waterway. Many have very low turnover and profits with consequent low willingness/ability to pay. See section 4 for proposed change.

Sources: <sup>1</sup> See, for example, [www.boatingdays.co.uk](http://www.boatingdays.co.uk) and [www.stokeontrentmarina.co.uk](http://www.stokeontrentmarina.co.uk).

## 4. PROPOSED CHANGES

- 4.1. In light of the preceding analysis, BW is confident that its basic fee structure is appropriate and defensible since in general fee differentials are related to relative cost impact and/or ability/willingness to pay on the part of the customer. There should therefore continue to be two main categories of licence equivalent to the current business and private licences with the former costing 2.47 times the latter. Against the background of this analysis however, there are several anomalies which the following proposals are designed to remove.
- 4.2. **Renaming**—the principles of cost impact and willingness/ability to pay suggest that there are groups in addition to businesses that should be charged the higher licence fee rate; therefore, we propose to rename this category 'higher rate' licences. In line with this change, we propose to rename the other broad category of licences, which are currently referred to as the private pleasure boat licences, 'base rate' licences.
- 4.3. **Differential between lower and higher rates**—we propose that the differential between the lower and higher rate should remain at 2.47 for the time being. If future research extends our understanding of cost impact and willingness to pay amongst different groups, we may propose change in this area at a later date. However, this consultation is not about the current rate, its formulation and level.
- 4.4. **Proposals for transfers to 'higher rate'**
  - (a) Shared ownership and multi user boats:
    1. Shared ownership and multi-user boats are in general used more intensively, thereby causing BW to incur greater cost. By definition, they are also on average used by more people, and this could be expected to indicate a higher ability/willingness to pay per boat. Although each individual user may have a relatively low willingness to pay, it is the **aggregate** willingness to pay of all users that is crucial since only one licence is issued per boat.
    2. We propose to class boats as shared ownership boats if they have **more than three** owners. We accept that the choice of the number of owners will necessarily be somewhat arbitrary; however, we believe that allowing the base rate to be charged for up to three owners strikes the appropriate balance. Couples and close family (whose usage might be expected to match that of the typical single-ownership boat) may jointly own a boat without being classed in the higher rate. By contrast, a larger number of people coming together to purchase a boat are likely to be less closely connected and the boat's usage might be expected to be more extensive. They will therefore pay the higher rate.
    3. Licence applicants will be required to sign a declaration that the boat is owned by less than four people. False declarations would be interpreted as breach of contract and subject to the normal penalties.
  - (b) Continuous cruisers (boats that have no home mooring)
    1. These boats also have a higher intensity of use. BW's 2004 boat owners' survey<sup>3</sup> indicated that they cruise on average for 177 days per year, which is significantly more than that of a hire boat. The case for the higher rate is therefore strong on cost impact grounds.
    2. In terms of willingness to pay, there is evidence from the same survey that the typical household income of continuous cruisers is significantly lower than that of boaters with home moorings and this might suggest a lower ability to pay. On the other hand, since the boat is frequently the primary residence, the licence fee is a

<sup>3</sup> See appendix

component of housing cost and as such, likely to be subject to different price considerations. In particular, an individual's willingness to pay for housing is generally substantially higher his willingness to pay for leisure boating.

3. Although it is difficult to be precise about the relative balance of the two above factors, we believe there is probably a case to be made for charging the higher rate for continuous cruisers. We invite views on this.
4. If the higher rate were introduced, we would propose phasing the increase in annual licence fee for existing customers over two years. There would be stepped rises from April 2006 and April 2007 with the full 2.47 multiple payable from April 2008. New customers without a home mooring would pay the higher rate immediately.
5. Higher rate licences would be offered to continuous cruisers for periods of three, six or twelve months, with the relative cost of the shorter periods being the same as for the current private boat licence (i.e. 35% and 60% respectively of the twelve month rate). This would reduce the impact of the change on people who cruise continuously for only a part of each year.
6. Licence applicants already declare their home mooring location on the application form. BW would introduce a validation process to minimise the risk of false declarations.

#### **4.5. Proposals for transfer to the lower rate**

It is proposed that the following groups currently licensed as business craft would move to the lower rate. Because of current discounts, the net effect on the actual fee paid will be zero or relatively small (see table 4.1) The groups affected are:

- (a) Boats operated for charitable purposes would move to the lower rate. Definitions and criteria remain as in the 2005 licence terms and conditions. These boats are currently eligible for a discount of 60% on the business licence fee.
- (b) Boats used for cargo carrying (other than freight vessels that are subject to BW's Freight Vessels Conditions). These boats are currently eligible for a discount on the business licence fee of 57% - 59% depending on length.

#### **4.6. Change to turnover threshold for trading craft discount**

Boats used as shop, store, workshop or office where the business turnover is less than £45,000 per annum are currently eligible for a 56% discount off the business rate. £45,000 was the VAT registration threshold at the time the discount was last reviewed. To avoid the need to constantly update the threshold and make it easier to validate whether or not the customer is eligible for the lower rate, BW proposes to adopt VAT registration as the pricing criterion. The current mandatory threshold for VAT registration is turnover of £60,000.<sup>4</sup> Any VAT-registered business would be required to pay at the higher rate. Non-VAT-registered businesses would be charged at the lower rate.

<sup>4</sup> See [www.businesslink.gov.uk](http://www.businesslink.gov.uk) for more details.

**Table 4.1 Summary**

<b>Boat use type</b>	<b>Current fee type</b>	<b>Proposed fee type</b>	<b>Current 12 month fee for 15m boat</b>	<b>Revised 12 month fee for 15m boat</b>	<b>Approx. no boats affected by the change</b>
Private	Private pleasure boat	Base rate	£542	£542	No change
Shared ownership and multi-user	Private pleasure boat	Higher rate	£542	£1,337	230
Continuous cruising	Private pleasure boat	Higher rate	£542	£1,337	1,360
Business – shop, store, workshop or office with low turnover	Business – trading craft – 56% discount	Base rate	£588	£542	100
Business – charitable purposes	Leisure Business – 60% discount	Base rate	£535	£542	4
Business – cargo carrying	Business –cargo carrying	Base rate	£542	£542	No change
Leisure hire or timeshare	Leisure Business	Higher rate	£1,337	£1,337	No change

The following discounts will continue to apply:

<b>to base and higher rate groups</b>	<b>to base rate groups only</b>	<b>to higher rate groups only</b>
<ul style="list-style-type: none"> <li>· River only (40%)</li> <li>· Prompt payment (10%)</li> <li>· Historic boat (subject to pending review) (10%)</li> <li>· Unpowered butty (50%)</li> <li>· Electric motor (25%)</li> <li>· Disconnected waterway (25%)</li> </ul>	<ul style="list-style-type: none"> <li>· Small, powered portable boat (50%)</li> <li>· Scottish licence holder</li> </ul>	<ul style="list-style-type: none"> <li>· Day hire without overnight accommodation (50%)</li> <li>· Day hire without use of locks (75%)</li> <li>· Unpowered hire by day or hour (90%)</li> </ul>

## APPENDIX – Relevant statistics from 2004 Boat Owners Views survey

A random sample of 6,400 boat licence holders was drawn from the current licence holders' database and each received by post a questionnaire about their boating activity and satisfaction with BW's service. 1769 questionnaires were returned to us. The questions relevant to the analysis contained in this consultation were:

Q13A Is your boat your primary residence?

Q13D Where do you normally keep your boat?

- on a home mooring on a British Waterways waterway
- on a home mooring on a non-British Waterways waterway
- out of the water (i.e. trailed)
- not applicable (continuous cruising)
- other

Q26. Approximately how many days in total did you spend cruising in the last 12 months?

Q35 Which of the following bands is closest to your total annual household income before tax?

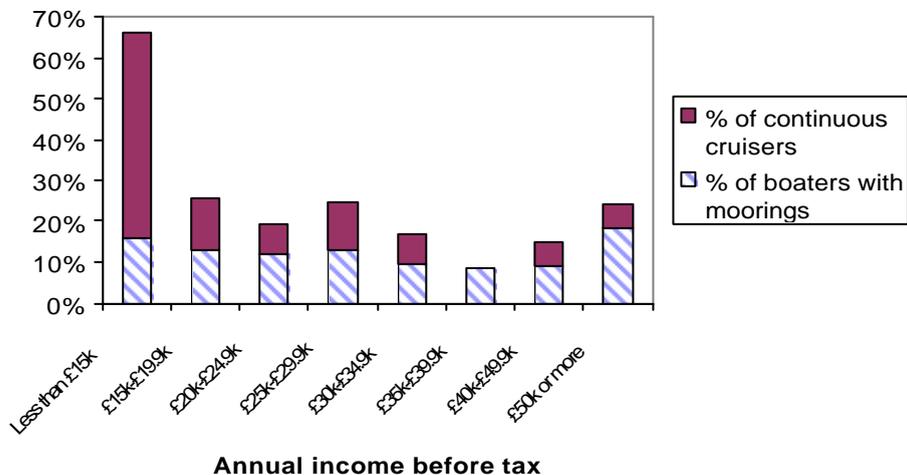
- Less than £14,999
- £15,000 to £19,999
- £20,000 to £24,999
- £25,000 to £29,999
- £30,000 to £34,999
- £35,000 to £39,999
- £40,000 to £49,999
- More than £50,000

**Table 1 – Variation in average total days cruising**

Q13D. Where do you normally keep your boat?	Q26. Approximately how many days in total did you spend cruising in the last 12 months?		
	Mean	Median	Number of respondents
On a home mooring on a British Waterways waterway	56	40	1194
On a home mooring on a non British Waterways waterway	59	50	186
Out of the water (i.e. trailed)	20	15	19
Not applicable ( <b>continuous cruising</b> )	177	155	88
Other [ WRITE IN ]	57	42	197
No reply	48	30	18
Total	62	45	1702*

\* 67 respondents did not estimate their total days cruising – this explains the difference between the 1769 total questionnaires and the number analysed in this table.

**Table 2 - Comparison of household income**



## HOW TO RESPOND TO THIS CONSULTATION DOCUMENT

This consultation is directed to all those who have an interest in our boat licensing policies. This includes:

- boating businesses
- individual boat users
- groups representing boat users

This consultation document was published in June 2005. Additional copies are available from BW Customer Services at the address below. You can also download an electronic version from our website at [www.britishwaterways.co.uk](http://www.britishwaterways.co.uk).

Please comment by **Friday 30 September 2005**. We intend to publish our response to the outcome of the consultation in November 2005.

You should use the appended response sheet to provide your views on the proposals. Additional comments can be made in writing and attached to the response sheet. Please ensure that any additional comments are clearly referenced to the proposals they relate to.

We welcome responses submitted electronically to: [consultation@britishwaterways.co.uk](mailto:consultation@britishwaterways.co.uk)

If you are not able to respond by e-mail, please send it to:

Eugene Baston  
External Relations Manager  
British Waterways  
Willow Grange  
Church Road  
Watford  
WD17 4QA  
Fax: 01923 201300

If you respond on behalf of a representative group please give a summary of the people and/or organisations the group represents. We may make responses public unless you specifically request that your comments are treated in confidence. If you have any questions about how to respond, or about the issues under consultation, please direct them to Eugene Baston as above.

This consultation is being carried out in accordance with the consultation criteria contained in the Code of Practice on Written Consultation published by the Cabinet Office in November 2000.

If you have any complaints or comments about the consultation process please contact:

Simon Salem  
Marketing and Customer Service Director  
British Waterways  
Willow Grange  
Church Road  
Watford  
WD17 4QA

FEE STRUCTURE FOR BOAT LICENCES IN ENGLAND AND WALES 2005.

**Consultation Feedback Form**

Your name \_\_\_\_\_ Date: \_\_\_\_\_

Name of user group you are representing (if any) \_\_\_\_\_

Postal address: \_\_\_\_\_  
 \_\_\_\_\_ Postcode \_\_\_\_\_

Email address \_\_\_\_\_  
 \_\_\_\_\_

**General approach to licence pricing (sections 2 & 3).**

1. Do you agree that cost impact and efficient recovery of fixed costs should constitute the key criteria for price differences between categories of user?	
2. Do you agree that wider social, environmental and heritage objectives are valid justifications for particular discounts?	
3. Do you accept the analysis outlined in table 3.1? If not, please give your reasons	

**Proposed changes (section 4)**

4. <b>Proposal 4.2</b> Do you agree with the proposed re-naming of the licence fee categories? If not, please give your reasons with your alternative suggestions.	
5. <b>Proposal 4.4(a)</b> Do you agree that boats with four or more owners should pay the higher rate, given that they tend to make greater use of the waterways ?	
6. <b>Proposal 4.4(b)</b> Do you agree with the proposal to classify boats that cruise continuously at the higher rate, given that they tend to make greater use of the waterways?	
7. <b>Proposal 4.4 (b) (4)</b> Would the proposed phasing of the introduction of the higher rate for continuous cruisers be appropriate? :	
8. <b>Proposal 4.5</b> Do you agree that boats operated for <b>charitable purposes</b> (as defined in the April 2005 licence terms and conditions for business craft) or for <b>cargo carrying</b> should pay the lower rate?	
9. <b>Proposal 4.6</b> Do you agree that businesses operating boats used as a shop, store, workshop or office should pay the higher or lower rate depending on whether they are VAT registered or not? If you think that this would have too damaging an effect on the owners of small VAT-registered businesses, what alternative criterion would you propose for differentiating?	