

Craft Licence Fees 2003 – 2006
Proposals for consultation, autumn 2002

1) Background

- 1.1. We gave an undertaking to boating user groups that craft licence fee increases would be pegged to RPI for the two years ending 31/12/02.
- 1.2. We now wish to propose an alternative formula to cover the three years commencing 1/4/03.
- 1.3. The past three years have seen continued steady increase in craft numbers which we welcome. The average annual increase over the past three years in total craft licensed for 3 months or more was just over 3%.
- 1.4. During the period, we have added just over 60 miles of navigable waterways to the network in England and Wales ¹ available to licence holders – an increase approximately 3.5%.
- 1.5. The comparative current costs of licensing a privately owned 45' narrowboat, expressed as price per mile of waterway available, for different navigation areas in 2002 are as follows:

(a) BW navigations	£0.26/mile
(b) EA Anglian	£1.92/mile
(c) EA Thames	£2.16/mile
(d) EA Medway	£4.02/mile

2. Indexing of rates

- 2.1. We appreciate that customers value long term security over licence fees. We are proposing to continue the principle of linking fee increases to an appropriate, independent index. We do not however believe that the retail price index is the most suitable choice. The index should reflect the cost to BW of maintaining the network. Therefore we should select an index that reflects changes in our operating costs.
- 2.2. In a typical year, using information from our 2001-2 published annual accounts, BW's costs fall broadly into three categories:
 - (a) major repairs and renovations (approx. 29% of total costs)
 - (b) labour (approx. 36% of total costs)
 - (c) other operating costs (35% of total costs).
- 2.3. National Statistics publishes a wide range of cost indices, which we have reviewed. As a result we would propose that the appropriate series for the above headings are:
 - (a) The All New Construction Output Price Index
 - (b) GB Whole Economy Average Earnings
 - (c) The Corporate Services Price IndexSources for these three indices are listed in the Appendix.
- 2.4. To construct the composite index, we have combined these three, applying the relevant cost share percentage as the weight. The resultant index is graphed for the years 1997 –

Chesterfield 6 miles, Ribble 3 miles, Huddersfield 23 miles, Rochdale 30 miles

2001 in the appendix, along with the RPI measure we have used for price revisions previously.

- 2.5. Because we are determined to increase our operating efficiency, we would propose to deduct 20% from the resulting composite index to establish the indexing formula. So for example, if the composite index for a particular year is 4.4%, licence fees would increase by $0.8 \times 4.4 = 3.52\%$
- 2.6. All three of the source indices are published quarterly with an approximate three-month lag. Since we need to give customers at least 12 weeks notice of the increase, we will announce new rates at the beginning of January each year to take effect from 1st April. The composite index, which will determine the price rise, will be calculated using the data published for the third quarter of each year.

3. Increase in network size

Fee levels should reflect increases in the geographical extent of cruising waterways covered by the licence, although we are not suggesting that this should be pro rata to mileage, since marginal cost is below average cost (i.e. not all our costs increase proportionately to mileage).

4. Changes to licence fee structure

This is a separate exercise whose proposals have been constrained to be revenue-neutral. The consultation has indicated that users would like us to abolish charges for special structures (Anderton, Standedge, Ribble) and to give a 25% discount to craft restricted to disconnected sections of the network. Together these will require an addition to the general fee level of 1% in order to maintain current licence income.

Under the recommended option for fee re-structuring, the relative price of licences for smaller craft will fall, and the fee will be set as a formula relating to length of craft expressed in whole metres. As a result, some people will pay a little more and some a little less for their licence, but the overall effect of the change on BW's income will be neutral.

5. Summary

Issue	Impact on average price	Comment
1. Cost index, reduced by 20% for efficiency target.	3.5%	
2. Increased mileage	2%	Total mileage increased by 3.5%
3. Fee restructuring to reduce prices for smaller craft and realign length categories	0%	But 15% of customers will pay between 5% and 8% more. Approx. half of all craft will pay less.
4. Removing charges for major structures + discount for disconnected stretches	1%	
TOTAL	6.5%	

6. Proposal

We believe that an increase of 6.5%, although justified, would cause some customers difficulty. Instead we propose that for 2003 the increase should be 3% - approximately equivalent to the sum of the 'exceptional benefit' items 2 & 4 in the above table. In other words, the price adjustment for 2003 would not take account of inflation effects. For 2004 and beyond, the normal annual change in prices will be determined by the composite index less 20%. Exceptionally, if significant additional cruising mileage becomes available or if we add new structures, which would otherwise

be subject to a user charge, we would expect to make reasonable additional adjustments, following consultation with user groups.

In addition we will delay introducing this increase to 1st April 2003 instead of 1st January 2003. Boat owners renewing or purchasing a new licence during the first three months of 2003 will be able to do so at the current, 2002 fees.

This proposal is for the period for the three years beginning 1 April 2003.

7. Consultation process

This document is being sent to all national boating user group offices and will be available on www.britishwaterways.co.uk. Copies are also available on request from British Waterways Customer Service Centre, Willow Grange, Church Road, Watford WD17 4QA (tel. 01923 201120, Mon – Fri 8am – 8pm, Sats 9am– 1pm). It will also be sent to everyone who has responded to the consultation on fee structures.

Comments should be addressed to Paul Wagstaffe, Customer Relations Manager, British Waterways at the above address, or by email paul.wagstaffe@britishwaterways.co.uk no later than 15th January 2003.

APPENDIX

1. Data sources

- **All New Construction Output Price Index.** Available from Construction Marketing Intelligence Dti. 0207 215 1935. Contact Marcella Douglas. Data published in Quarterly Building Price & Cost Indices (ISSN 1353-1824). Price £18 (single copies) from Dti.
- **Corporate Services Price Index.** Available on quarterly basis through National Statistics web-site. Contact Sonia Jones 01633 812 410.
<http://www.statistics.gov.uk/statbase/Product.asp?vlnk=7351&Pos=1&ColRank=1&Rank=272>
- **GB Whole Economy Average Earnings Index** (seasonally-adjusted). Available from National Statistics web-site <http://www.statistics.gov.uk/statbase/TSDtimezone.asp>. Data set LNMQ. ONS provides an annual index. Monthly data is available with a 2 month time lag.

2. Construction of new composite BW cost index

Index	Share of index	% Annual change				
		1997	1998	1999	2000	2001
Construction industry output prices	29.2%	2.9	4.3	4.5	4.3	3.8
Average earnings all economy	36.1%	4.3	5.2	4.8	4.5	4.4
Corporate Services Price Index	34.7%	3.7	2.8	3.1	4.1	4.9
Composite index		3.7	4.1	4.1	4.3	4.4
RPI		3.1	3.4	1.5	3	1.8

3. Performance of the index since 1997

